



BWR Accountants & Advisers

June 2016

NEWSLETTER



accounting
advice for
START-UPS
can be
**IMMEDIATELY
WRITTEN OFF**

Personal Superannuation contributions

If you make non-concessional contributions to your super of \$1,000, you may be eligible for a Government co-contribution of up to \$500 if your income is below a certain amount, ask us now for details

\$20,000

Immediate Write-off

Did you know this applies to both new and **second hand** assets purchased before 30 June 2017

What will change on 1 July 2016

For Small Business

For many small business owners, the business structure they start with is not always the best structure over time .

New rules that apply from 1 July 2016 mean that small businesses can restructure their business operations without triggering adverse tax implications subject to various conditions being met.

Before the introduction of the new restructuring rules, if a business restructured from say, a partnership to a trust, there was a possibility that the change in structure could trigger capital gains tax (CGT). That is, the tax law would treat the restructure the same way as a sale and the owners could be liable for CGT on their share of any gain based on the current market value of the assets being moved into the new structure.

While the existing CGT provisions already contain a number of roll-overs that can be utilised for business restructures, they generally only provide relief when assets are transferred to a company. Other concessions can potentially apply in a broad range of situations, but will not necessarily provide complete tax relief. This new form of roll-over relief can provide complete income tax relief when assets are transferred to a sole trader, partnership or trust if certain conditions can be met.

The conditions for accessing these new rules are fairly strict. Broadly, the key conditions are:

- The transaction is a genuine restructure of an ongoing business. The concessions can't be used for winding down or selling a business.
- Each party to the transaction is a small business entity (revenue under \$2m) or is related to a small business entity in the year the transaction occurs. The turnover test is subject to some grouping rules.
- The business owners (the people who have ultimate economic ownership of the assets) and their share in those assets doesn't materially change.
- The asset(s) being transferred is/are currently being used in the business carried on by the current owner or certain related parties.
- Both the original entity and the entity the business is being transferred into need to be Australian residents.
- The parties involved in the transaction must choose jointly to apply the roll-over.
- None of the entities involved in the transaction are a superannuation fund or exempt entity.

Buying or Selling Property? The 1 July Tax Problem You Didn't Know You Had

New rules to prevent foreign residents avoiding tax when they sell Australian property including farms will affect everyone buying or selling property with a market value of \$2 million or more from 1 July 2016. Many transactions involving shares in a company or units in a trust will also be caught.

From 1 July, a 10% withholding tax will apply when foreign residents sell certain types of Australian property. However, if you are selling Australian property, the new rules assume you are a non-resident unless you have a clearance certificate from the ATO. Without this clearance certificate, the purchaser can withhold 10% of the purchase price and pay this to the ATO. For purchasers, if you do not withhold the tax and do not have a clearance certificate, you are liable for the tax (on a \$2 million property, that's \$200,000).

You can probably already see the problem here. Until everyone gets used to this new system there are likely to be quite a few issues where property contracts don't mention the withholding tax, no clearance certificate is provided, and no tax is withheld on settlement.

The good news is that the withholding tax does not apply to real property that has a market value of less than \$2 million. This exclusion can apply to residential dwellings, commercial premises, vacant land, strata title units, easements and leasehold interests as long as they are below the \$2 million market value threshold.

I'm selling a property what do I need to do?

If you are selling real property affected by the new rules after 1 July and that property is likely to have a market value of \$2 million or more, you need to apply for a clearance certificate from the ATO. Without this certificate, the purchaser of your property must assume you are a foreign resident and will be permitted to withhold 10% of the purchase price and remit it to the ATO.

When a certificate is issued by the ATO it remains valid for 12 months. The ATO has been developing an automated process for issuing a clearance certificate. The vendor (or an agent) will be able to complete an online application form. In straightforward cases the ATO expects that certificates will be issued within a matter of days.

I'm buying a property what do I need to do?

If you are buying real property affected by the new rules after 1 July and that property has a market value of \$2 million or more, you need to ensure that you receive the clearance certificate from the vendor before settlement occurs. While the tax rules allow you to withhold 10% of the purchase price if the clearance certificate is not provided, it might also be a good idea to have this built into the sale contract to avoid any uncertainty.

If the sale proceeds and you don't have a clearance certificate and have not withheld the tax, the tax liability rests with you, the purchaser.

Farm Management Deposits

Effective from 1 July 2016, the cap on farm management deposits has been increased to \$800,000. However, you cannot claim a deduction for FMD's if your non-primary production income is more than \$100,000 and any deduction you claim cannot be more than your taxable primary production income for the year.

Work Related Car Expenses

The government has simplified the car expense deductions for 2015/16. Commencing from 1 July 2015, the one-third of actual expenses method and the 12% of original value method have been abolished. The two methods available after this date are the cents per kilometre method and the logbook method.

Tax - Related Scams

There are several scams circulating at present. The two most common being an email advising you are due for a refund and a telephone call demanding payment of an outstanding debt.

The emails claim to come from the ATO and usually offer a tax refund. Generally they link to a bogus website asking for personal and credit card details and are often infected with a computer virus. **Do not open any attachments.**

The telephone scam claims you owe money to the ATO and a warrant for your arrest will be issued unless you make an immediate payment.

Please check with us before responding to any unexpected contact from the ATO .

Fringe Benefits Tax - portable electronic devices, protective clothing, briefcases and tools of trade are exempt from FBT provided the items are primarily for use in the employee's employment.

The End of Financial Year is Fast Approaching

It's time to review the last few months and undertake some tax planning, as well as get your records in order to complete your compliance obligations for the 2015/16 financial year.

Following are some basic steps to make your life easier when it comes to preparing your business for the end of the financial year.

As a part of your end of financial year plan you should prepare:

- ◆ A **bank reconciliation** as at 30 June 2016. Include copies of your **bank statements** for the year including July 2016 for confirmation of interest earned or paid.
- ◆ A list of **accounts receivable** (people who owe you money) as at 30 June 2016. Review your list and write off any invoices that you believe won't be recovered (bad debts).
- ◆ A list of **accounts payable** (people that you owe money) as at 30 June 2016.
- ◆ A record of your livestock numbers and/or a stock take on 30 June 2016.
- ◆ Employee wages **PAYG Payment Summaries** and Superannuation records for the financial year, reconciled to your payments for the year.

Consider realising capital losses if you have already realised capital gains on other assets during 2015/16. Conversely, consider realising capital gains if you have unrecouped capital losses, or you expect substantially higher income in 2016/17 compared to 2015/16.

Depreciating Assets

A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value (depreciate) over the time it is used. The general depreciation principles apply to most depreciating assets used in primary production, however, the deduction for some primary production depreciating assets is worked out using special rules.

Water Facilities - as a primary producer, from 12 May 2015, you can claim an immediate deduction for certain capital expenditure you incur for conserving or conveying water for use in a primary production business. Water facilities expenditure includes dams, tanks, bores, irrigation channels, pumps and windmills.

Fencing - as a primary producer, from 12 May 2015, you can claim an immediate deduction for the cost of fencing you incur primarily and principally for use in a primary production business on land in Australia.

Fodder Storage Assets - as a primary producer, from 12 May 2015, you can depreciate over three years the cost of fodder storage assets you incur primarily and principally for use in a primary production business on land in Australia. Fodder storage assets include silos, bins for storing dried grain, hay sheds, grain storage sheds and above-ground bunkers.

What is Division 7A?

Division 7A arises where you use a private company's funds and/or assets for your own personal use.

The personal use of assets or payment of personal accounts from the bank account is not allowed and will be deemed as a dividend for income tax purposes unless a loan agreement is put in place and you meet minimum principal and interest repayments on the loan.

Contact us if you have any questions about this topic.

Farm Innovation Fund

The NSW Farm Innovation Fund provides loans to meet the cost of carrying out permanent capital works that will have a significant beneficial impact on the land, long term profitability of the enterprise and address adverse seasonal conditions. For further information:

<http://www.raa.nsw.gov.au/assistance/farm-innovation-fund>

Workcover NSW Small Business Rebate

The small business rebate gives up to \$500 back to small business owners who buy and install eligible safety equipment to address a safety problem in the workplace.

For further information:

<http://workcover.nsw.gov.au/health-and-safety/safety-assistance-and-support/small-business-rebates>



36 Templar Street
Forbes NSW 2871
T: 02 6852 1855
F: 02 6852 4198

136 Clarinda Street
Parkes NSW 2870
T: 02 6862 1444
F: 02 6862 4825

Superstream - are you compliant?

Small employers (19 or fewer employees) must meet the SuperStream standard by 30 June 2016.

Larger employers should have been using SuperStream since 31 October 2015.

Simple Tax Saving Strategies

Making Contributions to Super

In order to claim a tax deduction in the 2016 financial year, your superannuation fund must receive your contribution by 30 June 2016. For personal superannuation contributions the concessional limit is \$30,000 for those under 50 years and \$35,000 for those between 50 and 75 years after satisfying the work test where required. Remember your employment superannuation guarantee counts towards this cap, so to avoid excess contributions tax remain within these limits. **Written acknowledgement** from your fund is required for personal contributions you intend to claim before the date of lodgement of your personal tax return.

Small business concessions

Small Business Concession taxpayers can make prepayments (up to 12 months) on expenses (e.g. loan interest, rent, subscriptions) before 30 June 2016 and obtain a full tax deduction in the 2016 financial year.

Defer income

Subject to cash flow requirements, consider delaying the issue of invoices and or receiving cash/debtor payments until after 30 June 2016. This spans to investment income also, if practical arrange for the contract date for the sale of capital gains tax assets to occur after 30 June 2016.

Bring forward expenses

Purchase consumable items before 30 June 2016. Consumables include stationery and office supplies. Make payments for repairs and maintenance before 30 June 2016.

Tools of trade/FBT exempt items

The purchase of Tools of trade and other FBT exempt items for business owners and employees can be an effective way to buy equipment with a tax benefit. Items that can be packaged include handheld/portable tools of trade, computer software, notebook computers, personal electronic organisers, digital cameras, briefcases, protective clothing and mobile phones. You need to buy these items before 30 June 2016 to claim a deduction.

Income Tax Changes - The Bill reducing the tax rate for companies that are small business entities from 30% to **28.5%** has been passed. The 2016/17 Federal Budget has introduced a further cut to the small business company tax rate to 27.5% and a change to the personal income tax threshold in the below table from \$80,000 to \$87,000 from 1 July 2016. These changes are not yet law and may change depending on the July 2016 election.

The following individual income tax rates for 2015-16 apply from 1 July 2015.

Taxable income	Tax on this income
0-\$18,200	Nil
\$18,201—\$37,000	19c for each \$1 over \$18,200
\$37,001—\$80,000	\$3,572 plus 32.5c for each \$1 over \$37,000
\$80,001—\$180,000	\$17,547 plus 37c for each \$1 over \$80,000
\$180,001 and over	\$54,547 plus 45c for each \$1 over \$180,000

The above rates **do not** include the Medicare levy of 2% or the temporary budget repair levy of 2% for taxable incomes over \$180,000

End of Year Reporting

Payroll

If you prepare your BAS please make sure you have the June quarter file back to us early to ensure we can reconcile your wages. There is an obligation for you to provide a PAYG summary to your employees by **14 July**. The summary must be lodged with the ATO soon after.

If you prepare your own group certificates, please make sure the amount reported on the PAYG Summaries agrees to your total wages paid during the four quarters of the year.

Building & Construction Industry

The due date for lodging the Taxable Payments Annual Report in the building & construction industry is 28 August.