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Tax planning

With the end of the 2018 income tax year rapidly approaching, this issue draws attention to year-end tax planning strategies and compliance matters that you need to consider to ensure good tax health. It focuses on the most important issues for small to medium businesses and individuals to consider.

TIP: This is general information, but we'll take your particular circumstances into account to help you achieve good tax health. Contact us to find out more.

Deferring derivation of income

If your business recognises income on an accruals basis (when an invoice is raised) and your cash flow allows, you may consider delaying raising some invoices until after 30 June, meaning the assessable income will be derived after the 2018 income tax year.

For business income derived on a cash basis (interest, royalties, rent and dividends), you may consider deferring the receipt of certain payments until after 30 June 2018. For example, setting term deposits to mature after 30 June 2018 rather than before.

Bringing forward tax-deductible expenses

To qualify for deductions in the 2018 income tax year, you may be able to bring forward upcoming expenses so that you incur them before 30 June 2018. Small businesses and individual non-business taxpayers may prepay some expenses (such as insurances and professional subscriptions) up to 12 months ahead. This should only be done subject to available cash flow and where the prepayment makes commercial sense.

Businesses

Lower company tax rates and imputation

Company tax rates are falling in Australia. Companies carrying on a business with turnover of less than \$25 million will pay a rate of 27.5% in 2018 – the rate of 30% only applies if turnover is \$25 million or more, or the company is not carrying on a business.

By 2027, the tax rate will reach a low of 25% for companies carrying on a business with turnover up to \$50 million.

TIP: The dividend franking rate for 2018 may be different from a company's tax rate, depending on whether turnover in 2017 was less than the current year's turnover benchmark (\$25 million for 2018).

Deductions for small business entities

Small business entities (companies, trusts, partnerships or sole traders with total turnover of less than \$10 million) will qualify for a raft of tax concessions in the 2018 income tax year:

- the \$20,000 instant asset write-off – an immediate deduction when buying and installing depreciating assets that cost less than \$20,000;
- the simplified depreciation rules – accelerated depreciation rates of 15% or 30% for depreciable assets that cost \$20,000 or more;
- the small business restructure rollover;
- an immediate deduction for start-up costs;
- an immediate deduction for certain prepaid expenses;
- the simplified trading stock rules – removing the need to do an end-of-year stocktake if stock value has changed by less than \$5,000;
- the simplified PAYG rules – the ATO will calculate PAYG instalments;
- cash basis accounting for GST – the ATO will calculate the GST instalment payable and annual apportionment for input tax credits for acquisitions that are partly creditable;
- the FBT car parking exemption (from 1 April 2017); and
- the ability for employees to salary-sacrifice two identical portable electronic devices (from 1 April 2016).

These concessions are very powerful for small businesses, and can lead to substantial tax savings.

Small business CGT concessions

If you're selling a business that has an aggregated turnover of less than \$2 million (a "CGT small business entity") or the value of its net CGT assets is \$6 million or less (it satisfies the \$6 million "net asset value" test), you may be able to access the small business CGT concessions.

These concessions include:

- a 15-year exemption – no CGT is payable;
- a 50% active asset reduction – a 50% CGT discount in addition to the 50% general discount;
- the retirement exemption – up to \$500,000 lifetime tax-free limit; and
- the active asset rollover – minimum two years' deferral.

Individuals

No more Budget repair levy

The Budget repair levy (2% of the part of your taxable income over \$180,000) no longer applies in 2018. This means that the top marginal rate for 2018 (including the 2% Medicare levy) is 47%, as opposed to 49% in 2017. The FBT rate is also 47% for the 2018 FBT year.

Deduct work-related expenses

People overclaiming deductions for work-related expenses like vehicles, travel, internet and mobile phones and self-education are on the ATO's hitlist this year. There are three main rules when it comes to work-related claims:

- You can only claim a deduction for money you have actually spent (and that your employer hasn't reimbursed).
- The expense must be directly related to earning your work income.
- You must have a record to prove the expense.

Deductions are not allowed for private expenses (eg travel from home to work that's not required to transport bulky equipment) or reimbursed expenses (eg for the cost of meals, accommodation and travel). And although you don't need to include records like receipts with your tax return, the ATO can deny your claim – and penalties may apply – if you can't produce the evidence when asked.

TIP: The ATO now uses real-time data to compare deductions across similar occupations and income brackets, so it can quickly identify higher-than-expected or unusual claims.

Superannuation contributions and changes

There have been a number of fundamental changes to the superannuation landscape for the 2018 income tax year, including changes to the caps for concessional contributions (now \$25,000 for all taxpayers) and non-concessional contributions (\$100,000, or \$300,000 under the three-year bring forward rule) and the introduction of the general transfer balance cap and total super balance threshold (each currently \$1.6 million).

Also from 2018, both employees and self-employed individuals can claim a tax deduction annually (maximum \$25,000) for personal superannuation contributions, provided the superannuation fund has physically received the contribution by 30 June 2018

and the individual provides their superannuation fund with a "notice of intention to claim" document.

Property owners

There have been recent changes to:

- the tax treatment associated with residential rental properties (eg travel deduction and depreciation changes);
- CGT and GST withholding tax obligations for purchasers of property;
- superannuation measures impacting home ownership (eg the first home super saver scheme and the superannuation downsizer incentive); and
- stamp duty and land tax, which varies from state to state.

The government has also proposed to abolish the main residence CGT exemption for taxpayers who are no longer Australian tax residents at the time they sign a contract to sell their home, regardless of how long the home has actually been used as a main residence.

Tax compliance and developments

Single Touch Payroll

From 1 July 2018, employers with 20 or more employees will have to run their payroll and pay their employees through accounting and payroll software that is Single Touch Payroll (STP) ready. This is a major reporting change, as employers will report payments such as salaries and wages and allowances, PAYG withholding and super information to the ATO directly from their payroll solution at the same time employees are paid.

GST on low value imported goods

From 1 July 2018, overseas vendors with GST turnover of AUD\$75,000 or more in Australian sales will have to account for GST on sales of imported goods costing AUD\$1,000 or less to consumers in Australia.

Payments to contractors in building and construction

Businesses in the building and construction industry must report to the ATO about their total annual payments to contractors by 28 August 2018. The government has proposed to extend this reporting regime to cleaners and couriers (from 1 July 2018) and to security providers, road transport and computer design services (from 1 July 2019).

Important: Clients should not act solely on the basis of the material contained in Client Alert. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. Client Alert is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.