News Bulletin

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Accountants &
Business Advisors

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TAX DEVELOPMENTS UPDATE

Budget Black Economy Measures

In a further assault on the black economy, the government will be enacting the following Budget measures, giving effect to the Black Economy Taskforce recommendations, which include: -

- Removal of ability for taxpayers to claim deductions for payments to their employees such as wages where they have not withheld any amount of PAYG from these payments.
- Removal of deductions for payments made by businesses to contractors where the contractor does not provide an ABN and the business does not withhold any amount of PAYG
- Funding of $318.5 million over 4 years to: -
  - implement new "mobile strike teams";
  - increase the ATO's audit presence;
  - start a Black Economy Hotline (that will allow for the community to report black economy and phoenix activities);
  - improve government data analytics and data matching;
  - increase information sharing between government enforcement agencies;
  - introduce a limit of $10,000 for cash payments made to businesses for goods and services, requiring require transactions over a threshold to be made through an electronic payment system or by cheque.
- prohibiting the production, distribution and possession of sales suppression tools, which are typically used to remove or alter transaction information recorded by point-of-sale (POS) systems;
- extending the taxable payments reporting system (TPRS) to security providers, road freight transport and computer design – this is in addition to the TPRS system extended to the cleaning and courier industries under measures contained in the Treasury Laws Amendment (Black Economy Taskforce Measures No 1) Bill 2018.

ATO Warning on Holding Undeclared Offshore Income

The ATO is working closely with AUSTRAC in identifying, taxpayers who have cross-border transactions.

Taxpayers holding undeclared offshore income have been urged to make a voluntary disclosure after the ATO working with AUSTRAC identified taxpayers who have had 5,000 cross-border transactions worth over $900 million in the past 10 years.

A range of immediate compliance actions are being taken against these taxpayers, and The ATO is investigating whether those taxpayers are using a sophisticated system of numbered accounts to conceal and transfer wealth anonymously to evade their tax obligations in Australia.

From 1 July 2018 Purchasers of new residential property are to be liable for GST

Under the new withholding regime, the responsibility for payment of the GST to the ATO will shift from the *vendor* to the *purchaser*.

This is intended to overcome the situation where the developer goes into liquidation after it receives payment for the property but before the GST is remitted to the ATO.

The new regime will apply to all contracts of sale entered into on or after 1 July 2018.

Where a vendor makes a taxable supply of new residential premises or potential residential land, the purchaser will be required to withhold 1/11th of the price and pay that amount to the ATO on or before the day on which any part of the consideration for the supply (other than a deposit) is first provided. This will usually be at settlement.

END OF FINANCIAL YEAR TAX PLANNING STRATEGIES

With the end of financial year fast approaching, it is an opportune time to consider your options in relation to year end tax planning, and opportunities that may exist to minimise your tax.

Below are some key strategies that may be employed to minimise your 2018 Tax. However, it should be noted this is not intended to be a comprehensive document covering all taxation issues that may require consideration.

If you have questions about anything in this newsletter or about your tax planning options, please do not hesitate to contact us.

Deferral of income derivation

A simple but effective tax planning strategy is for business owners to defer income: -

- Determine whether you have brought income to account in the correct year. Some income is brought to account on a cash basis (eg interest), while other income is brought to account on an accruals basis (eg business income).
- Consider invoices to be issued in June 2018 and July 2018 and whether they are in the appropriate period.
- Consider whether it is possible to defer the recognition of accrued income to the next income year. Such income may, or may not, be derived for tax purposes depending on the legal entitlement to the amounts at the time.
- Determine whether income has been received or receivable in advance of goods or services being supplied or provided (ie unearned income amounts). Generally, if a contract or arrangement requires that the fee be paid in advance, the income may be derived in the income year in which the work is completed to which the fee relates. Such income should be credited to an unearned income account so that it is not included as normal income.
- Determine as to whether the amount is income or capital – income is generally fully taxable, whereas items of a capital nature are generally tax free or subject to the concessionally taxed Capital gains.

Timing of expenses

Issues for consideration include:-

- Expenses are generally deductible if incurred by 30 June 2018. This requires: -
    - Actual payment or a presently existing liability, and
    - it must be directly related to earning of income

However, there are specific rules that determine when some expenses are deductible or not deductible.

$20,000 instant asset write-off extended

As part of its 2018 Budget, the Government announced that it will extend the current instant asset write-off ($20,000 threshold) for small business entities (SBEs) by 12 months to 30 June 2019. This applies to businesses with aggregated annual turnover less than $10 million

Bad debts

Considerations with bad debts include:-

- Review bad debts before 30 June 2018.
- Write-off bad debts before year end to get deduction in that year (provision for doubtful debts not deductible).
- Bad debts may not be deductible if there has been a change in ownership or control of a company or trust (unless certain tests are passed).

Trading stock

With trading stock:-

- Decide on the most tax effective valuation method - you can choose either cost, market selling value or replacement price.
- Identify any obsolete stock - special valuation rules apply.
- Scrap unwanted stock by 30 June 2018.
- If a small business entity, stock valuation is not required if the difference between opening and estimated closing value of trading stock for the year is $5,000 or less

Prepayments

- If expenses are not subject to the prepayment rules, prepay deductible expenditure by 30 June 2018.
- The prepayment rules spread a pro-rated deduction over more than one year, where the expenditure provides benefits after end of the current income year.
- The prepayment rules do not apply to excluded expenditure, which includes salary and expenditure under $1,000.

- Small business entity taxpayers and non-business individuals are allowed prepayments in the year incurred if the benefit does not extend beyond 12 months.

Depreciation – General

Ways to minimise tax include:-

- Scrap all obsolete items by 30 June 2018 to claim undepreciated cost.
- Consider reassessing the effective life if the asset has excessive use.
- Balancing adjustment on disposal - excess assessable or deficit deductible - rollover is available.
- Consider delaying disposal of items for a profit until after 30 June and bringing forward disposal of items for a loss to before 1 July.
- Plant costing less than $1,000 - option to allocate assets to a low value pool.

Depreciation for Small Businesses

Issues to consider include:-

- Small businesses can claim an immediate deduction for assets they start to use or install ready for use, where the asset costs less than $20,000.
- Assets valued at $20,000 or more may be placed in the small business depreciation pool and depreciated at 15% in the first year and 30% in subsequent years.
- The pool can be immediately deducted if the balance falls below $20,000 over the period (including existing pools).

Service and Management Fees

Service Fees and Management Fees can be an effective way to split/divert income from high marginal tax rate taxpayers to low marginal tax rate taxpayers.

However, such payments may be the subject of ATO scrutiny and may be deemed to be non-deductible if:-

- The fees may be considered excessive.
- The service entity has not performed the services independently of the taxpayer.
- The arrangements may make no commercial business *sense.*
- The services may not have been actually delivered.
- There is no documentation of a management or service agreement.

Year-End Planning Considerations

Before year-end, taxpayers should review all inter-group service and management fees. They should ensure that appropriate arrangements and documentation are in place and that they are commercially justifiable.

Superannuation

Superannuation concessional contributions by eligible individuals of up to $25,000 a year are tax deductible

Concessional contributions include:-

- Employer contributions
- Salary sacrifice contributions
- Contributions for which a tax deduction has been claimed

Note that employer super guarantee contributions are included in these thresholds.

In order to obtain a deduction in the 2018 financial year, the contribution must be received by the superannuation fund by 30 June 2018.

SINGLE TOUCH PAYROLL: WHAT YOU NEED TO KNOW

Single Touch Payroll (STP) – the direct reporting of salary and wages, PAYG withholding and superannuation contribution information to the ATO – comes into effect from 1 July 2018.

Employers with 20 or more employees at 1 April 2018 must use standard business reporting-enabled software from 1 July 2018. The head count for '20 employees' includes full-time, part-time, casuals (who worked any time during March), employees based overseas, or on paid or unpaid leave. Directors and independent contractors are excluded from the count.

STP is currently voluntary for businesses with less than 20 employees although proposed reforms seek to extend the reporting system to all employers by 1 July 2019, regardless of the number of employees.

What must be reported

STP requires PAYG withholding and superannuation contribution details to be reported to the ATO as payments are made to employees or superannuation funds.

When it comes to PAYG withholding, employers will report details of salary and wages paid to employees as well as the PAYG withholding amount at the time the payment is made to the employee.