BUSINESS AND TAX NEWS

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EVANS EDWARDS

ACCOUNTANTS | AUDITORS | BUSINESS ADVISORS

In this edition

Deadline approaching for CGT relief SMSF trustees electing to apply transitional CGT relief to their 2016/17 returns or amend a previously lodged return will need to do so before 30 June 2018.

Transitional CGT relief was introduced from 30 June 2017 to allow SMSF trustees who adjusted their superannuation interests to comply with the transfer balance cap and transition to retirement income stream reforms.

The CGT relief ensures that, for certain assets that were supporting super income streams in retirement phase before 1 July 2017, an SMSF trustee can still receive a tax exemption on capital gains accrued but not realised.

CGT relief will apply differently, depending on what method was used to calculate exempt current pension income (ECPI) at the start of the pre-commencement period – from 9 November 2016 to 30 June 2017.

There are two methods:

Segregate: calculate your ECPI by selecting specific assets to support your income streams

Proportionate: calculate your ECPI by applying a percentage to your income streams.

Where the fund is 100 per cent in pension phase, the ATO will accept that the fund is using the segregated method.

Regardless of which method is used, your fund must have held the assets throughout the entire pre-commencement period and must have been a complying super fund from 9 November 2016 until the date of CGT relief is applied.

If a trustee changed from the proportionate method to the segregated method between 9 November 2016 and 30 June 2017, they are not eligible for CGT relief under either method.

Effects of CGT relief

The deemed sale when CGT relief is applied creates a capital gains event for that asset, and when the asset is deemed to be repurchased it has the effect of being a new asset for CGT purposes. The asset must then be held for at least 12 months after this time to qualify for the CGT discount.

The indexation method for assets originally acquired before 21 September 1999 willl no longer be available.

CGT relief can apply at the parcel-to-parcel level for shares or units, meaning the trustee can choose which particular shares in an overall holding to reset the cost base for. With unit trusts, CGT relief applies to the units, and not the underlying assets held by the trust.

SMSF trustees are reminded that CGT relief is irrevocable, so appropriate planning and care should be exercised.

Federal Budget 2018

Last night's Budget announcements had within it some additional assistance for small business with the extension of the instant asset write-off for capital purchases under $20,000. The commitment to the reduction in company tax rates remains, and there is a commitment to infrastructure projects to help strengthen the economy and create jobs.

In addition, there are some proposed benefits for older Australians to be able to draw on the equity in their home in order to fund their retirement, as well as an additional incentive for employers to continue to hire mature aged workers. There is also proposed tax relief for low and middle-income earners with a change to the tax thresholds and a deferral of the plans to increase the Medicare levy. The health sector looks to also benefit.

As with every Federal Budget, we will have to wait and see what proposed changes are passed through the House of Representatives and the Senate to get a better understanding of how they may affect our clients and where we can further assist you to take advantage of them. Watch this space!.

Year end 2018 checklist

Now is the time to start planning and reviewing your records to maximize your tax deductions for the 2017/18 financial year.

Here are our top ten tips for year-end tax planning for businesses and individuals:

Pay quarterly super

Super Guarantee (SG) contributions must be paid before 30 June to qualify for a tax deduction in the 2017/18 financial year. Consider bringing forward June quarter SG payments to increase the benefit.

Write-off bad debts

Review your debtor list to identify those who owe you money but are unlikely to pay. Write-off bad debts before 30 June - the debt must not be merely doubtful and must have been previously included as assessable income.

Prepaid expenses

Small business entities may bring forward deductible expenses such as rent, repairs and office supplies, that cover a period of no more than 12 months

Stocktake

Trading stock should be reviewed before 30 June to identify any obsolete, slow moving or damaged stock. Obsolete stock must be physically disposed of for income tax purposes to receive a deduction.

Defer income

Businesses can benefit from deferring invoices until after 30 June. By delaying income, in effect you defer paying tax on that income for the financial year.

Depositing contributions

All of the contributions that have been recorded for your SMSF need to be deposited in the SMSF's bank account by no later than 30 June 2018. This is especially important where members have reported concessional or non-consessional contributions.

Trust resolutions

Trustees of discretionary trusts must make and document resolutions prior to 30 June 2018 regarding how trust income will be distributed among beneficiaries.

Capital Losses

Consider selling loss-incurring assets, such as shares, to help offset your tax liability from any capital gains on other assets.

Self-education expenses

To obtain a deduction for self-education expenses, such as course fees, textbooks, stationery, etc., your study must either be work-related or you receive a taxable bonded scholarship.

Home office expenses

Business owners operating from home can cliam deductions for expenses such as room utilities, (gas and electricity), business phone costs, motor vehicle expenses, depreciation and occupancy expenses, such as rent, mortgage interest, etc.

And last, but not least, call your accountant to see what tax planning tips might apply to your particular circumstances.

ATO targeting holiday homes

The Australian Taxation Office (ATO) is focusing on rental property owners this tax season with a large number of mistakes, errors and false claims made by some using their own property for personal holidays.

The ATO is reminding owners they cannot claim deductions for holiday homes that are not actually available for rent or only available to friends and family.

Private use is entirely legitimate although it does reduce an owner's ability to earn income from the property.

Properties must be genuinely available for rent to claim deductions. This means you cannot use the property for your personal use or let friends and family stay rent-free and claim a deduction.

For those who rent the property to friends or family at mates rates, they must only claim deductions for expenses up to the amount of the income received.

In addition to rental properties, the ATO is investigating cases where taxpayers claim their property is available for rent but there is no intention of renting it out. Rental rates well above market rates and unreasonable conditions for prospective renters are just a couple of ways owners can be doing this.

The ATO will also be scrutinizing incorrect rental property claims. Data matching technology allows the Tax Office to pick up attempts at over-claiming regardless of whether the mistake was deliberate or an accident.

Property owners are advised to double-check their claims before lodging their tax return. They must remember to declare all rental income and only claim deductions for periods that the property is rented or genuinely available for rent at market rates.