DFK AUSTRALIA NEW ZEALAND BUSINESS & TAXATION BULLETIN

keeping you informed **spring 2016**

IN THIS ISSUE

WORK RELATED DEDUCTIONS

The ATO has issued a media release to highlight the areas of focus for review of work related deductions for car expenses, travel, internet, phones and self-education expenses.

For work related expenses to be an eligible tax deduction, the following conditions need to be met:

- Individual taxpayer must have expended the money.
- The expenditure must not have been reimbursed by the employer.
- The expenditure must be related to the individual's employment.
- Sufficient records retained as evidence of the expenditure.

TFN DECLARATION FORMS

Tax File Number declaration forms are required to be completed and signed by all new employees to a business.

These forms are now available online for download from the ATO website and can be completed on-screen. Once the form is complete, it should be printed, signed and sent to the ATO. Please ensure you retain a copy for your own business records. Alternatively paper forms can still be ordered from the ATO however please ensure you are using the most current form as they are updated annually.

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GIC & SIC RATES

The ATO has published general interest charge (GIC) and shortfall interest charge (SIC) rates for the first quarter of the 2016-17 income year. The GIC annual rate for July – September 2016 is 9.01%, and the SIC rate is 5.01%.

THE SHARING ECONOMY

The sharing economy is growing rapidly in Australia and often involves an app connecting buyers to a seller providing a specific service such as:

- Renting out a room or house on a short-term basis (eg. AirBnB).
- Providing taxi travel or ride-sharing services (eg. Uber).
- Providing personal services (such as graphic design, website services or furniture assembly).
- Renting out a car-parking space.

If you are involved in the sharing economy, you need to ensure you are complying with income tax and GST obligations. If you are carrying out an enterprise you are required to obtain an ABN and register for GST if your aggregated turnover across all business activities is greater than $75,000. The GST registration threshold does not apply to ride-sharing services and GST must be charged on the full amount of fare, not just on commission earned.

If you are selling goods or services in your spare time as a hobby, pastime for pleasure or recreational activity then this will not be considered a business and there are no income tax or GST reporting requirements.

CAR EXPENSE RATES

From 1 July 2016 the methods and rates for work related car expenses remain unchanged with the two available methods being:

- Cents per km – limited to 5,000 km per year.
- Logbook – unlimited kilometres.

The cents per kilometre rate remains unchanged for the 2017 financial year at 66 cents per kilometre for all vehicle types.

ELECTION TIME FOR PAYG & GST INSTALMENTS

A reminder for all businesses and individuals who are required to pay quarterly GST or PAYG instalments, that the September quarter BAS or IAS is the time to elect your calculation method for the 2016 financial year.

For GST there are three options

Option 1: Report and pay GST on actual business activity for the quarter.

Option 2: Report sales figures only and pay GST based on actual business activity. Details of purchases will be reported in an Annual GST Return. This is available to businesses with turnover of less than $20 million.

Option 3: Pay a GST instalment amount worked out by the ATO based on prior quarters figures. Report your actual GST through an Annual GST Return. This is available to businesses with turnover of less than $2 million.

For PAYG Tax Instalments there are two options:

Option 1: Pay the ATO the notified amount based on the most recent income tax return lodged.

Option 2: Calculate gross income for the quarter and multiply by the ATO notified rate.

FUEL TAX CREDITS

The next 6 monthly rate change for fuel tax credits due to indexation commenced from 1 August 2016.

Now that the fuel tax credit rates are changing regularly, it very important to keep good records to support your claim.

For fuel used in heavy vehicles you are required to apply the applicable rate on the date you acquired the fuel.

USE OF FUEL	TYPE OF FUEL	FROM 1 FEBRUARY 2016	FROM 1 AUGUST 2016
Vehicle greater than 4.5 tonnes GVM travelling on a public road	Petrol or diesel	13.36 cents	13.7 cents
Specified off-road activities	Petrol or diesel	39.5 cents	39.6 cents
Powers auxiliary equipment of a heavy vehicle travelling on public roads	Petrol or diesel	39.5 cents	39.6 cents
Fuel for domestic heating	Kerosene and heating oil	39.5 cents	39.6 cents

FEATURE ARTICLE
SAVE HUNDREDS OR THOUSANDS WITH EFFECTIVE TAX PLANNING

A person doesn't know how much he has to be thankful for until he has to pay taxes on it – Author Unknown

As another financial year has ended, it is important to consider this fiancial year's tax strategies. Here are some things to consider.

DEFER INCOME

Most businesses operate on an accrual system where tax is paid on the value of invoices raised rather than when cash is received. Thus it might be beneficial to defer raising invoices in June and instead raise them after 1 July, being the next financial year.

If possible, arrange for the receipt of Investment Income (eg. interest on Term Deposits) and the sale of Capital Gains assets to occur after 30 June. Please bear in mind that the Contract Date is the key date for working out when a sale has occurred, not the Settlement Date!

ACCELERATE DEDUCTIONS

Regardless of whether your business trades on a cash or accrual basis, the business can generally claim a tax deduction for an amount it has 'incurred' (or in simpler terms, entered into a legal obligation to pay someone else). The date it is incurred will generally be the date on the invoice issued by the supplier.

Small business entities (annual turnover of less than $2 million) can access prepayment concessions that are not available to larger businesses. Therefore, if cash flow of your business allows, you may want to consider prepaying expenses such as rent, interest, bonuses and subscriptions. Please note that this concession only applies to expenses less than 12 months in advance.

Please note that the tax rate for small business entities has changed from 30% to 28.5%, therefore any accelerated deductions prior to 30 June 2016 received a higher tax benefit than if incurred in the 2017 financial year.

As a result, accelerating deductions is the most common way of minimising your taxable income for a given financial year.

SMALL BUSINESS ASSETS – INSTANT WRITE-OFF

Small business entities are eligible to claim an immediate write off for assets costing less than $20,000. Assets costing over $20,000 are depreciated within the general small business pool. The value of the general small business pool can be written off when it drops below $20,000.

BAD DEBTS

Write off bad debts before year end. The debt must be bad, not merely doubtful and must have been previously included as assessable income. Bad debts can only be written off where there have been a genuine attempt to recover the debt.

STOCKTAKE

The year end stock-take should involve a review of all stock and a decision made in relation to its value from both a tax and commercial perspective. Obsolete stock must be physically scrapped to be written off.

BUILDINGS

Any client who owns a building (or is looking to acquire a building) which was constructed or has made structural improvements to an existing building after 26 February 1992, is entitled to claim a tax deduction of at least 2.5%pa of the construction/improvement costs.

If this applies to you, we recommend having a depreciation schedule prepared by a qualified quantity surveyor. This may help add a significant tax deduction for depreciation. The cost is also tax deductible and helps substantiate any capital allowance claim you have.

PREPAY INTEREST

Many lenders will allow you to prepay your interest and this is an effective strategy to claim an additional deduction for 12 months paid in advance. Factors such as anticipated future income, interest rates and cash flow impact should be considered before deciding to prepay interest.

SUPERANNUATION – THERE ARE MANY OPPORTUNITIES HOWEVER BE CAUTIOUS

Contributing to superannuation can often provide significant tax and long term wealth creation benefits. Some of the contribution strategies outlined below can be combined strategically to maximise both tax and retirement planning positions.

Superannuation co-contribution

The Government will contribute 100 per cent of an eligible taxpayer's personal after-tax superannuation contributions during a financial year up to a scaled maximum.

The calculated maximum is $500 less 3.33 per cent of any assessable income plus reportable fringe benefits that a taxpayer has above $35,454. Co-contributions reduce to $0 when total income reaches $50,454.

Concessional contributions

A self employed person, investor or individual under 50 years of age may claim a personal deduction for superannuation contributions of up to $30,000 per annum or up to $35,000 per annum provided the person is over 49 on 30 June 2015.

Individuals aged between 65 and 74 must satisfy a 'work test' before making a contribution. To satisfy the test you must work at least 40 hours during a consecutive 30 day period in that financial year. Businesses may be able to claim a concessional superannuation contribution for a director or employee of either $30,000 or $35,000 per annum based on the relevant age of the person on 30 June 2015.

Note that employer super guarantee contributions are included in these caps. Where a contribution is made that exceeds these limits, the excess is included as part of an individuals taxable income and taxed at their marginal tax rate, potentially 49%. Any excess concessional contributions are then included as non-concessional contributions.

Remember: If you have more than one fund, concessional contributions made to all super funds are added together and count towards the contributions limit.

Salary sacrifice contributions

Foregoing some salary for increased employer super contributions remains one of the best strategies for many individuals to reduce income tax while saving for retirement.

This certainly is an attractive option if you are nearing retirement or are in a position where your cashflow requirements are not as demanding. Salary sacrificed contributions count towards your concessional contributions limits so be very cautious not to exceed your caps.

Non-concessional contributions

The federal government announced a severe immediate cut to the non-concessional contribution cap including the bring-forward rule.

Taxpayers are now limited to a lifetime non-concessional cap of $500,000 (counting contributions from 1 July 2007) instead of the annual caps of $180,000 and $540,000 if using the bring-forward rule for under 65s. This is subject to legislation.

Pension drawdown

All self-managed superannuation funds which are in pension phase are required to make minimum pension payments by 30 June.

Pensions are calculated based on member balances at 1 July each year. The minimum pension rates for account based pensions are listed in the following table.

AGE AT 1 JULY 2015	MINIMUM PENSION RATE
Under 65	4%
65–74	5%
75–79	6%
80–84	7%
85–89	9%
90–94	11%
95 or more	14%

To claim a tax deduction in the current financial year, you need to ensure that your employee superannuation payments have CLEARED your business bank account by 30 June. We recommend that you arrange for a bank transfer or bank cheque made payable to your employee super fund prior to 30 June. Any superannuation contributions made after 30 June will not be deductible until the following financial year even though they relate to contributions for the previous year. We stress the importance of this as it could impact an employee's concessional limits if not paid in the correct financial year.

Effective tax planning is a continual process. Whilst continuously changing tax laws can make planning a challenge, making it a priority by implementing wise strategies will see you reap the benefits that are available.

We are committed to working with you to find the most effective tax planning strategies best suited to your circumstances. If you have questions about anything in this newsletter or about your tax planning options please contact our office. Further, if you have friends or associates who might be interested in end of year tax planning information, please encourage them to contact us.

FINANCE ARTICLE
MAXIMISE YOUR LOAN BORROWING AFFORDABILITY

With interest rates at historical lows how can you maximise your loan borrowing affordability

WHAT AFFECTS A LOAN AFFORDABILITY

- Loan borrowing capacity can be affected by what liabilities a person has (eg. credit cards, store accounts, store finance, personal loans and vehicle finance).
- Excessive credit card limits and credit cards held and not used will reduce your loan borrowing capacity.
- Income will also determine your loan borrowing capacity. A person investing in property will increase income with the rent they'll receive which increases loan borrowing capacity.
- Living expenses affect loan borrowing capacity (ie. number and age of dependants, life style).
- Non deductible debt versus deductible debt (ie. negative gearing). Lenders allow for negative gearing for investors in serviceability which increases loan borrowing capacity.

What do you need to do to maximise your loan borrowing affordability and how to meet the lenders criteria

- Reduce credit card limits to manageable levels.
- Cancel unused credit card accounts.
- Consolidate debt.
- By consolidating credit cards, personal loans debt etc. This reduces monthly commitments on these debts and there is additional income for servicing a new loan.
- Have a budget and manage living expenses (eg. entertainment, restaurants etc.) which increases savings and also increases borrowing capacity.

- Have tax returns completed and lodged, as lenders will require current financial details for a loan application.
- Increase repayments on non deductible debt (home loans etc.) to repay these loans quicker and also increase equity in a property to use for investment.

Is there a way to structure loans to increase loan borrowing affordability?

- Having interest only split loans, being a separate loan for the investment property purchase, enables better management of the investment (ie. maximise tax benefits with negative gearing) and maximise cash flow for loan servicing.
- Having split banking (ie. with two lenders) can increase loan borrowing capacity with multiple investment properties.

If all loans are with one lender then borrowing capacity can be reduced with that lender, being the way that lender assesses the total loans held with it.

If the client has loans with other lenders then this gives them greater borrowing capacity as those loans are not assessed at a higher repayment level, but at actual repayments.

Talk to us about your business needs today.

If you're interested in global outsourcing, foreign operations or any business and accounting support, we can make it happen.

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UPCOMING KEY DATES & DEADLINES

21 SEPTEMBER 2016	August 2016 Monthly Activity Statement due for lodgement and payment
21 OCTOBER 2016	Annual PAYG Instalment Notice due for lodgement and payment
21 OCTOBER 2016	September 2016 Monthly Activity Statement due for lodgement and payment
21 OCTOBER 2016	Quarterly PAYG Instalments activity statement due for lodgement and payment for head companies of a consolidated group
28 OCTOBER 2016	Superannuation Guarantee Contributions due for payment for July – September 2016 quarter
28 OCTOBER 2016	July – September 2016 Business Activity Statement due for paper lodgement and payment
28 OCTOBER 2016	All businesses to be Super Stream compliant by this date for all superannuation contributions
31 OCTOBER 2016	Due date for lodgement of 2016 Income Tax Return for all entities with one or more prior year returns outstanding at 30 June 2016
21 NOVEMBER 2016	October 2016 Monthly Activity Statement due for lodgement and payment
25 NOVEMBER 2016	July – September 2016 Business Activity Statement due for electronic lodgement and payment
1 DECEMBER 2016	2016 Income Tax Payment required for Large and Medium taxpayer (lodgement due 15 January 2017)
1 DECEMBER 2016	2016 Income Tax Payment due for companies and super funds when lodgement of return required on 31 October
21 DECEMBER 2016	November 2016 Monthly Activity Statement due for lodgement and payment

FOR MORE INFORMATION & FUTURE NEWSLETTERS

For more information on anything contained in this bulletin please telephone or email to our details below.

For further information or enquiries about any of these articles please contact Gooding Partners.

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