Client Information Bulletin

BLAZE ACUMEN
CHARTERED ACCOUNTANTS

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CONTENTS:

It's Tax Time again!

This newsletter outlines some tax changes and tips for 2018-19 that should be considered by small businesses and individuals when preparing their tax returns for 2018-19. This newsletter also contains key lodgement dates to keep in mind.

Tax changes for 2019

There have been some tax changes for businesses for 2018-19 in relation to:

- Expanding accelerated depreciation;
- Increasing access to company losses;
- Single Touch Payroll; and
- International tax changes.

Expanding accelerated depreciation

The Federal Budget raised the instant asset write-off threshold to $30,000 from Budget night and expanded the number of businesses who could access the write-off to businesses with turnover less than $50 million. The write-off will be accessible to eligible businesses until 30 June 2020.

The lifting of the threshold and extending the availability of the concession to many more businesses is most certainly a positive step. However, it does leave businesses in a situation where they will have to deal with three different thresholds in the 2019 income year if they want to actually claim the offset.

The following thresholds will apply in the following way in the 2019 income year:

- Assets costing less than $20,000 from 1 July 2018 to 28 January 2019 (for businesses with turnover less than $10 million);
- Assets costing less than $25,000 from 29 January 2019 to 2 April 2019 (7.29pm) (for businesses with turnover less than $10 million); and

- Assets costing less than $30,000 from 2 April 2019 to 30 June 2019 (7.30pm) (for businesses with turnover less than $50 million).

It is important to note that the instant asset write-off threshold now includes businesses with a turnover from $10 million to less than $50 million.

Tip! Such a simple concession so favourable to small businesses is unnecessarily complicated for the 2019 income year. If you don't get the timing of the amount right, you could miss out. You should ask your Blaze Acumen tax adviser to make sure you don't miss out.

Increasing access to company losses: 'Similar business test'

Most businesses will be familiar with the 'same business test'. However, from 1 March 2019, there is also a more flexible test called the 'similar business test'.

The purpose of these tests is to determine whether a company's tax losses and net capital losses from previous income years can be used.

The new test should make it easier to access prior year losses when companies enter into new transactions or business activities.

Under the similar business test, a company (and some trusts) can access losses following a change in ownership where its business is ***similar*** having regard to various factors, including the:

- Assets used by the business to generate assessable income;
- Activities and operations used to generate assessable income;
- Identity of business; and
- Changes resulting from the development or commercialisation of assets, products, processes, services, or marketing or organisational methods.

Single Touch Payroll

Do you have employees? Are you ready for Single Touch Payroll?

If an employer reports through Single Touch Payroll, they are not required to provide a payment summary to their employees. Not all employers are reporting through this system yet. It only became compulsory for smaller employers from 1 July 2019.

Under this system, many individuals will no longer receive a Payment Summary (Group Certificate) from their employer due to the introduction of Single Touch Payroll. Individuals will find they have an 'Income Statement' through their MyGov account.

International Tax Changes

Hybrid mismatch rules

There have been changes to the hybrid mismatch rules. These rules are designed to prevent entities that are liable to income tax in Australia from avoiding income tax or obtaining global double tax benefits through hybrid mismatch arrangements that exploit differences in the tax treatment of an entity or instrument under the laws of two or more tax jurisdictions.

Thin capitalisation

There have also been changes to the thin capitalisation provisions. These rules prevent certain debt deductions (e.g. for interest expenses). The changes are designed to prevent double gearing structures. Double gearing structures use layers of 'flow-through' entities (such as trusts and partnerships) to issue debt against the same underlying asset.

Tip! These changes are complex. If they apply to your business, you should seek advice from your Blaze Acumen tax adviser.

5 tax tips for small businesses

A few tips that small businesses should consider when preparing their tax returns are:

1. Check if you are applying the correct company tax rate;
2. Check if you are entitled to the small business income tax offset;
3. Check if you are entitled to a small business CGT concession;
4. Ensure that deductions are only claimed for business (not personal) expenses; and
5. Keeping the right records to support your claims.

Correct company tax rate

Companies will pay tax at the full rate of 30% or at the lower rate of 27.5% if certain eligibility requirements are met.
The ATO has published a useful table to help companies determine which tax rate is applicable.

Income year	Aggregated turnover threshold	Tax rate for **base rate entities*** under threshold	Tax rate for all other companies
2017-18	$25m	27.5%	30.0%
2018-19 to 2019-20	$50m	27.5%	30.0%
2020-21	$50m	26.0%	30.0%
2021-22	$50m	25.0%	30.0%

A base rate entity is a company that:

- Has an aggregated turnover less than the aggregated turnover threshold – which is $50 million for the 2018-19 income year; and
- 80% or less of their assessable income is base rate passive income (e.g. corporate distributions, royalties, rent, interest income).

Tip! Small businesses should check whether the 30% rate or 27.5% rate applies to them.

Small business income tax offset

The small business income tax offset can reduce the tax you pay by up to $1,000 each year.

To be eligible, you must be carrying on a small business as a sole trader or have a share of net small business income from a partnership or trust. The ATO has published the following table outlining the relevant turnover thresholds.

Income year	Aggregated turnover threshold	Rate of offset	Maximum offset
2015-16	$2m	5%	$1,000
2019-17 to 2019-20	$5m	8%	$1,000
2020-21	$5m	13%	$1,000
2021-22 and onwards	$5m	16%	$1,000

When determining whether you are entitled to the small business income tax offset, you need to determine your aggregated turnover.

Your aggregated turnover is generally your annual turnover plus the annual turnover of any business connected or affiliated with you.

Small business CGT concessions

There are four small business CGT concessions that may allow a small business to disregard or defer some or all of a capital gain from an active asset used in a small business.

If your business has disposed of an eligible active asset used in a business for a profit, you should consider if these concessions can apply to reduce the amount of tax payable by the business.

Broadly, these concessions are available when you dispose of an active asset and:

- You're a small business with an aggregated annual turnover of less than $2 million; or
- Your asset was used in a closely connected small business; or
- You have net assets of no more than $6 million (excluding personal use assets such as your home, to the extent that it has not been used to produce income).

Tip! Your Blaze Acumen adviser can assist you in determining whether these conditions are satisfied. For example, your Blaze Acumen tax adviser can assist you in determining whether the asset in question satisfied the active asset test.

If available, these concessions can be very beneficial to small businesses. The concessions are:

1. 15-year exemption – no assessable capital gain on the sale of active assets owned by a business for 15 years where certain other conditions are satisfied (e.g. you are over 55 or retiring).
2. 50% active asset reduction – capital gains on the sale of active assets can be reduced by 50%.
3. Retirement exemption – capital gains from the sale of active assets are exempt (subject to a lifetime limit of $500,000). If you're under 55, other conditions apply.
4. Rollover – defer capital gains made on the sale of active assets for two years (or longer in certain circumstances).

Business expenses

Generally, a small business can deduct expenses that are related to earning assessable income and are incurred to run the business.

Common expenses that may be deductible include:

- Salaries;
- Rent or mortgage interest expenses;
- Running expenses – e.g. lighting, phone, internet, stationery; and
- Some travel expenses.

The line between business and personal expenses can easily be blurred when it comes to travel expenses. Make sure travel expenses are correctly characterised (or apportioned) as business or personal expenses.

The general rule for businesses is that you can claim deductions for expenses if you or your employee are travelling for business purposes. Such expenses can include:

- Airfares, bus, train and taxi/Uber fares;
- Car-ire fees plus fuel, tolls and car parking costs; and
- Accommodation and meals if you are away overnight.

You must keep proper tax records to claim travel expenses. The records need to be kept for 5 years and can include tax invoices, boarding passes, tickets. Records are also needed to detail how you worked out the private portion of any travel expenses. For example, if you travelled for business but extended the stay to go sightseeing and have a holiday. In this case, you will need to work out an appropriate apportionment of the expenses.

Depending on the length of travel, you may need to keep a travel diary as well. In fact, the ATO highly recommends a travel diary is kept for all travel expenses.

Some expenses that may be characterised as private and are not deductible could include:

- Costs incurred to take your family on a business trip;
- Sightseeing and entertainment; and
- Visas, passports or travel insurance.

What are the ATO's focus areas?

The ATO has identified the top 3 issues that they see as issues when small businesses lodge their tax returns:

1. Failing to report all of their income;
2. Not having the necessary records to prove small business expenses claims; and
3. Claiming private expenses as business expenses.

Tip! You should keep these focus areas in mind when preparing your tax return.

Key tax dates

23 Sep 2019	August monthly BAS due
30 Sep 2019	Single touch payroll deadline to start reporting
21 Oct 2019	September monthly BAS due
28 Oct 2019	- September quarter SG due - September quarterly BAS due - September quarter PAYG instalment due
31 Oct 2019	2019 Income tax return due
21 Nov 2019	October monthly BAS due
28 Nov 2019	September quarter SG charge statement due

Please see page 9 for 2019's key lodgement dates

Tax changes for 2019 – Individuals

There have been some tax changes for individuals for 2018-19 in relation to:

- Low and middle income tax offset (LMITO);
- Downsizer contributions to superannuation; and
- First Home Super Saver scheme (FHSS).

Low and middle income tax offset

In the 2019-20 Federal Budget, the Government announced it would increase the LMITO for the 2018-19 income year by increasing the base amount from $200 to $255 and the maximum amount from $530 to $1,080.

The ATO has indicated that taxpayers do not have to claim this offset. The ATO will work it out for taxpayers when their tax return is lodged.
The LMITO can reduce the amount of tax a taxpayer pays.

Downsizer contribution to superannuation

If you are selling your home, you should consider the superannuation downsizer contribution rules.

Subject to certain eligibility requirements, from 1 July 2018, individuals aged 65 years old or older may choose to make a downsizer contribution of up to $300,000 into superannuation from the proceeds of selling their primary residence.

The contract for the sale of their primary residence must be entered into on or after 1 July 2018.

There are certain reporting requirements that need to be complied with if an individual is making a downsizer contribution to superannuation.

Note! Age and work test restrictions do not apply to downsizer contributions.

First home super saver scheme

If an individual has requested the release of an amount under the FHSS scheme during the 2018-19 income year, the individual must include the following amounts in their 2018-19 tax return:

- Any assessable FHSS amount; and
- The tax withheld amount.

Individuals will receive a payment summary from the ATO showing these amounts.

5 tax tips for individuals

A few common areas that can trip individuals up when they are preparing their tax returns are:

1. Including all assessable income;
2. Ensuring expenses claimed are deductible;
3. Determining whether superannuation contributions are deductible;
4. Determining Australian tax residency status; and
5. Keeping the right records to support your claims.

Assessable income

Amounts that are usually characterised as assessable income include:

- Salary and wages;
- Bank interest;
- Dividends;
- Interest from term deposits; and
- Rent from investment properties.

If you receive amounts in relation to the following types of activities, you may have to include the amounts in your assessable income.

- Receipts from Uber;
- Online selling; and
- Receipts from Airtasker.

When determining whether an amount you receive is assessable income, it is important to ask the correct questions to ensure that the income is correctly classified. For example, in relation to a hobby, you need to determine if the activity is a hobby or whether it is in fact a business.

Deductible expenses

Determining whether expenses are deductible can be confusing. Areas where mistakes commonly occur in relation to claiming deductions for expenses include:

Expense	General tax treatment – Note: advice is needed on the specific treatment
Work related deductions: phone, internet and professional subscription costs	These need to be expenses that are actually incurred and can be substantiated. You cannot automatically claim a $300 deduction for work related expenses.
Travel costs to/from work: claiming the cost of travelling between work and home	Generally, not deductible.
Car expenses: for a car used for work (attending meetings/conferences away from your usual work place or delivering/collecting work supplies)	If you use your car for work, you need to keep records to substantiate your claim. You will also need to apportion private and business use of the car.
Reimbursed expenses: claiming for expenses funded or reimbursed by your employer	Generally, not deductible.
Home office expenses: internet, computer, phone, stationary, lighting and heating expenses	These expenses need to be apportioned between personal and business use.
Self-education expenses: textbooks, courses, stationery and computers	These expenses must relate to your current work as an employee, not education to enable a future career change.
Capital expenses: claiming a deduction for expenses that add to the capital value of an asset	Generally, not deductible.
Donations: claiming for donations made to an organisation that is not a Deductible Gift Recipient (DGR)	Generally, not deductible.

There are many deductions that are complex and difficult to determine eligibility. One area where we often see questions being asked is rental property deductions.

Deductions and rental properties: Repairs vs improvements

What constitutes a repair? What constitutes an improvement?

It is clear that the area of deductions in respect of repairs to investment properties continues to be problematic.

In this context, it is critical to distinguish between:

- Ongoing repairs, which are deductible;
- Initial repairs, which are not deductible; and
- Improvements, which are not deductible.

If the amount in question falls into the category of initial repairs or improvements, the amount in question is not deductible. However, it would be considered as expenditure that may qualify for depreciation purposes, capital works purposes, or as part of the cost base for CGT purposes.

An amount of expenditure would constitute initial repairs if the asset was in disrepair at the time of its acquisition, and before letting out the property, the owner carried out the repairs.

What is a repair?

The more problematic issue is the distinction between repairs and improvements.

Repairs generally involve a replacement or renewal only of a worn out or broken part, or relate directly to wear and tear or other damage that occurred as a direct result of renting out the property.

Common repairs would include things like replacing broken windows, repairing electrical appliances or machinery, and replacing worn guttering and fences. It might also extend to work done to prevent deterioration, such as painting a rental property, or cleaning something which is otherwise in good working order.

What is an improvement?

By contrast, improvements go further. They fundamentally change the property that previously existed in some meaningful way rather than maintaining and merely repairing the property.

Extensive landscaping or adding a deck to a property would ordinarily constitute an improvement. To put it another way, if what has occurred is more than merely restoring what previously existed to its original condition, it is likely to be treated as an improvement and therefore not deductible.

In trying to evaluate whether an amount of expenditure is an improvement, consider the following two questions:

1. Does the expenditure give rise to a material increase in the efficiency in the functioning of the property?
2. Does the expenditure give rise to a material increase in the value of the asset?

If the answer to either of these is yes, it is likely that there is a capital improvement which is not deductible.

Some important cases where there is an improvement rather than a repair include:

- The replacement of a dilapidated ceiling with an entirely new and better ceiling;
- The replacement of a rotten wooden floor with a better, longer lasting, and more moisture resistant concrete floor; and
- The replacement of cupboards as part of the refurbishment of an entire kitchen.

Clearly, this is an area that causes much confusion and compliance can be problematic. Taxpayers need to be careful to ask the right questions and ensure their answers are properly considered with a reasonable degree of objectivity.

Tip! Your Blaze Acumen tax adviser can assist you in determining what expenses are in fact deductible.

Residency

With the workforce becoming more and more mobile, there will be more questions about tax residency.

When determining whether an individual needs to file a tax return and pay tax in Australia, you first need to assess whether the individual is a resident for tax purposes. The test for tax residency is not the same for all Government agencies. Some taxpayers may think that they are not Australian residents when in fact they might be!

As a starting point, taxpayers should consider how many days they reside in Australia during the year. Taxpayers tend to rely on the '183 day' test. However, a taxpayer that resides in Australia for less than 183 days during the financial year may still be a resident for tax purposes.

Note! Are you on a working holiday? Then separate rules apply to you. Residency can be complex. Individuals should seek advice if they are unsure of their residency status.

Superannuation contributions/caps

Individuals can add to their super by making their own personal super contributions to their super fund.

Personal super contributions come from your after-tax income (that is, from your take-home pay).

You cannot claim a deduction for superannuation contributions:

- paid by your employer;
- the compulsory superannuation guarantee; or
- salary sacrifice amounts.

However, certain personal superannuation contributions may be deductible.

From 1 July 2017, employees can generally claim a deduction for personal super contributions they make to their super until they turn 75.

Individuals who are aged between 65 and 74 will need to meet the work test to be eligible to claim the deduction. For the 2019-20 income tax year, there will be a one-year work test exemption. If you are over 65 and not working, you should ask your Blaze Acumen tax adviser about this exemption if you are considering making a super contribution.

Personal super contributions count towards concessional contributions caps. Your employers' contributions plus any amount salary sacrificed to super will also count towards concessional contributions caps. This is an extremely complex area of the tax law. Basically, the contribution caps limit the amount that can be contributed to super each financial year.

The concessional contributions cap is $25,000 for the 2018-19 income tax year. If your contributions are greater than the cap you may have to pay more tax.

There are also caps on your non-concessional contributions cap. Your non-concessional contributions include super contributions for which you are not entitled to a deduction. For 2018-19, the annual non-concessional contributions cap is $100,000 for individuals with super balances of less than $1.6 million on 30 June 2018. If you exceed your non-concessional contributions cap you may have to pay more tax.

Tax records

To prepare your tax return, you need to keep careful records.

Your tax records should include (but are not limited to) records to show:

- Your assessable income – i.e., payments you have received;
- Your deductions – i.e., expenses related to payments you have received;
- Acquisitions or disposals – such as shares, rental property, your main residence; and
  Tax-deductible gifts and donations.

Key Lodgement Dates

Lodgement and payment due dates for 30 June balancing companies and super funds		
Due date for lodgement	Due date for payment	Description
31 October 2019	1 December 2019	Entities with one or more prior year returns outstanding as at 30 June 2019.
31 October 2019	1 December 2019	Entities prosecuted for non-lodgement of prior year tax returns and advised of a lodgement due date of 31 October 2019.
31 October 2019	1 December 2019	Entities that may be required to lodge early.
1 December 2019	As per notice of assessment	Companies that are not full self-assessment (NFSA) taxpayers. Note: Companies not subject to full self-assessment include agents for non-resident insurers and re-insurers, and overseas shipping companies.
15 January 2020	1 December 2019	Large/medium taxpayers whose 2018 tax return was taxable – unless required earlier.
28 February 2020	28 February 2020	• Subsidiary member of a consolidated group that has exited the consolidated group in the financial year. • Large/medium taxpayers whose 2018 tax return was non-taxable. This includes entities whose 2018 tax return was made not necessary by 30 June 2019. Large/medium taxpayers established between 1 July 2017 and 30 June 2018 and the 2018 tax return is not necessary and the ATO has been advised that a tax return was not necessary. New registrant large/medium taxpayers. Head companies of consolidated groups that are new registrants. Note: If the new registrant is a head company of a consolidated group, it is important to refer to Consolidated groups. In some instances, the company may need to lodge using the arrangements for a large entity • New registrant SMSF – unless required earlier.
31 March 2020	31 March 2020	Entities with total income in the 2017–18 year of more than $2 million unless required earlier.
15 May 2020	15 May 2020	• Entities that may not have an obligation to lodge. • Entities who are subsidiary members of a consolidated group that has been consolidated for a full year. These entities should not have an obligation to lodge. • Non-profit organisations that assess that they have a requirement to lodge and have not been allocated an earlier lodgement due date. Note: Entities must assess their obligation to lodge a tax return on an annual basis. • New registrants, excluding large/medium taxpayers, head companies of consolidated groups and SMSFs. All remaining entities that are tax agent clients.
5 June 2020	5 June 2020	Tax return for companies and super funds who were non-taxable or received a credit assessment in the latest year lodged and are non-taxable or receiving a credit assessment in the current year (unless due earlier) – all entities with a lodgement due date of 15 May 2020 except large/medium taxpayers or head companies of consolidated groups. Note: This is not a lodgement due date but a concessional arrangement where penalties will be waived if lodgement is made by this date.