Planning Opportunities for Individuals

Individual Tax Cuts

From 1 July 2018, if legislation passes, the 32.5% personal income tax threshold will be increased from $87,000 to $90,000.

The following tax rates apply from 1 July 2018:

Taxable income	Tax on this income
0 - $18,200	Nil
$18,201 - $37,000	19% over $18,200
$37,001 – $90,000	$3,572 plus 32.5% over $37,000
$90,001 – $180,000	$20,797 plus 37% over $90,000
$180,001 and over	$54,097 plus 45% over $180,000

The above rates do not include the Medicare levy of 2%.

Superannuation Matters

The below information is general in nature. If you require specific advice for your circumstances, please contact your licenced financial adviser or Waterhouse Wealth Management.

Concessional contributions

From 1 July 2017, the concessional (i.e. tax deductible) contributions cap is $25,000 for all individuals, regardless of age.

The most common types of concessional contributions are employer contributions, such as super guarantee and salary sacrifice contributions.

However, from 1 July 2017 the “10% rule” was removed which means that most employees are now able to claim a tax deduction for personal super contributions they make to their super fund.

If you wish to claim a tax deduction for personal contributions, you must complete and lodge a “notice of intent form” with your super fund and have this notice acknowledged (in writing) by your fund. The form is to be lodged by the earlier of either:

- the day you lodge your tax return for the year in which the contributions were made
- the last day of the income year after the income year in which you made the contributions.

If you are over age 65, you must satisfy the “work test” in order to make contributions. The work test requires that you must have worked at least 40 hours in a consecutive 30 day period in the financial year. Note: after age 75 you are not eligible to make contributions.

Finally, excess concessional contributions may attract additional tax. The excess is included in your income tax return and taxed at your marginal tax rate. You can choose to withdraw some of the excess contributions from your super fund to pay the additional tax.

Non-concessional contributions

Non-concessional superannuation contributions are generally those contributions made from after tax dollars and are therefore not tax deductible, nor are they assessable in the superannuation fund.

For members aged 65 or over but under 75

Members aged 65 years or over but under 75 may contribute as outlined in the following table:

Total Superannuation Balance (as at 30/6/2017)	Contribution
Less than $1.6 million	$100,000 cap
Greater than or equal to $1.6 million	Nil

For members under 65 years

Members under 65 years of age will have the option of contributing $100,000 per year or up to $300,000 over a three-year period as outlined in the following table:

Total Superannuation Balance (as at 30/6/2017)	Contribution and bring forward available
Less than $1.4 million	Access to $300,000 cap (over 3 years)
Greater than or equal to $1.4 million and less than $1.5 million	Access to $200,000 cap (over 2 years)
Greater than or equal to $1.5 million and less than $1.6 million	Access to $100,000 cap (No bring-forward period, general non-concessional contributions cap applies
Greater than or equal to $1.6 million	Nil

Transitional arrangements apply to individuals who brought forward their non-concessional contributions cap in the 2015–16 or 2016–17 financial years.

If you are over age 65, you must satisfy the “work test” in order to make contributions. The work test requires that you must have worked at least 40 hours in a consecutive 30 day period in the financial year. Note: after age 75 you are not eligible to make contributions.

Finally, excess non-concessional contributions may attract additional tax. If you exceed the cap, you can choose to withdraw the excess contributions and any earnings from the super fund. The earnings are then included in your income tax assessment and taxed at your marginal rate. If you don’t withdraw the excess, the excess is taxed at 47%.

For further information regarding contribution caps, please visit the ATO’s website or contact us:
https://www.ato.gov.au/super/self-managed-super-funds/contributions-and-rollovers/contribution-caps/

Taxes and levies

- **Temporary budget repair levy** – this levy which imposed a 2% tax on taxable income above $180,000 ceased to apply from 30 June 2017.

- **Division 293 tax** - From 1 July 2017, the Division 293 tax of 15% which is assessed to concessional superannuation contributions, will apply to those individuals with income of greater than $250,000 (down from $300,000), resulting in overall tax of 30% on the concessional contribution.

- **Medicare levy** - The Medicare levy will remain at 2% (previously proposed to increase to 2.5% from 1 July 2019).

Prepayments

If you have a rental property or other investments (e.g. share portfolio) you are eligible to prepay investment expenses where the period for the expenditure is 12 months or less.

The benefit of prepaying investment expenses is that you bring forward the 2018/19 tax deduction into the 2017/18 year. However, you must bear in mind that the deduction will not be available in the 2018/19 year unless you again prepay the expense for the 2019/20 year, and so on.

Cash flow permitting, you may consider prepaying investment expenses covering a 12 month period, such as interest.

Private health insurance rebate

The 30% private health insurance rebate is an amount that the government contributes towards the cost of your private health insurance premiums, and became income tested from 1 July 2012.

Below are the various income brackets and private health rebate entitlements that apply from, 1 April 2018:

Single Families	≤$90,000 ≤$180,000	$90,001-105,000 $180,001-210,000	$105,001-140,000 $210,001-280,000	≥$140,001 ≥$280,001
		Rebate		
< age 65	25.415%	16.943%	8.471%	0%
Age 65-69	29.651%	21.180%	12.707%	0%
Age 70+	33.887%	25.415%	16.943%	0%

(Source: https://www.privatehealth.gov.au/healthinsurance/incentivessurcharges/insurancerebate.htm)

You may therefore wish to review your 2018 income position and, if appropriate, bring forward tax deductions or delay the receipt of income so that you can maximise your health insurance rebate.

Salary packaging

There may be an opportunity to salary package certain work related items that are exempt from fringe benefits tax. This effectively means you acquire the item from pre-tax salary rather than from after tax salary, and may include the following items:

- Portable electronic devices such as mobile phones, laptops, tablets, portable printers and GPS navigation receivers.
- Computer software.
- Protective clothing.
- Briefcases.
- Tools of trade.

You may also be salary sacrificing into superannuation. Note that from 1 July 2017, the annual concessional contributions cap reduced to $25,000 for all individuals regardless of age. Therefore, you may need to review salary sacrificing arrangements to ensure that your total superannuation contributions, including employer superannuation guarantee support, does not exceed $25,000.

If applicable, you should discuss this with your employer and/or their payroll department.

Excessive self-education expenses

Normally, if you undertake study that is connected to your work you can claim the costs of that study as a tax deduction - assuming your employer has not already picked up your expenses. There is also no limit to the value of the deduction you can claim. While this all sounds great there are issues to consider before claiming your Harvard graduate degree, accommodation and flights as a self-education expense.

To be deductible, the study must be connected to the income you are earning (either to maintain or improve your specific skills or knowledge), or is likely to result in increased income from existing income earning activities. You cannot, for example, claim study expenses if the main purpose of undertaking the course is to open up a new income earning activity or for a personal research project not related to your work.

The ATO is more likely to target large self-education expenses. For anyone who has completed post graduate study you know that these expenses can ratchet up very quickly, particularly when you add in any other expenses such as books or travel. It's important to ensure that there is a clear connection between your current job or business activity and the expenses you are claiming before you claim them.

Travel related expenses

Claims for work related travel expenses are a major area of focus for the ATO. The larger the claim the more likely it is that the ATO will take a closer look. If you claim travel expenses, it's important to ensure that you fully understand what's required.

Every year, the Commissioner publishes the reasonable rates for travel expenses when travelling overnight in the course of employment activities – accommodation, food and drink, and incidental expenses. These rates are only applicable if you receive a genuine travel allowance for that travel. If claims fall within the ATO's reasonable amounts, you can deduct travel allowance expenses within Australia without being required to keep full written evidence of all the expenses.

However, even if you can rely on the substantiation exception, you may still be required to show the basis for determining the amount of your claim - that is, you still might need to prove that you actually incurred the expenses, and the expenses were work related.

In order for accommodation and meals to qualify as a travel expense, you need to travel away from your home. The ATO takes that to mean that you're sleeping away from home - not just travelling for the day.

And, just because your employer pays you a travel or overtime meal allowance does not mean that you are automatically entitled to a deduction for travel expenses. You still need to actually incur the expenses.

NSW land tax "foreigner" surcharge

If you are a foreign person who owns residential land in NSW, you must pay a surcharge of 0.75 per cent for the 2017 land tax year and two per cent from the 2018 land tax year onwards.

You may be a foreign person if you are not an Australian citizen.

A foreign person can be:

- an individual
- a corporation
- a trustee of a trust
- a beneficiary of a land tax fixed trust
- a government
- a government investor
- a partner in a limited partnership.

Please note, where a discretionary trust has even just one foreign person as a potential beneficiary, the trust may be treated as a “foreign person” and be subject to surcharge land tax.

If you have a discretionary trust and are concerned you may be affected by these rules, please contact us.

Planning Opportunities for Businesses

General matters

The following matters need to be attended to as noted below:

	Due By
Staff superannuation – 9.5% gross wages	30 June 2018
June quarter Business Activity Statement	28 July 2018
PAYG summaries distributed to staff	14 July 2018
PAYG Annual Reconciliation forwarded to the ATO	14 August 2018

Note: superannuation contributions for employees need to be received by the respective superannuation funds prior to 30 June 2018 in order to obtain a tax deduction.

Superannuation Guarantee (SG)

The SG rate will remain at 9.5% until 30 June 2021 and then increase by 0.5% each year until it reaches 12%.

Period	Superannuation Guarantee Rate (%)
1 July 2003 - 30 June 2013	9.00%
1 July 2013 - 30 June 2014	9.25%
1 July 2014 - 30 June 2021	***9.50%***
1 July 2021 - 30 June 2022	10.00%
1 July 2022 - 30 June 2023	10.50%
1 July 2023 - 30 June 2024	11.00%
1 July 2024 - 30 June 2025	11.50%
1 July 2025 onwards	12.00%

We remind you that superannuation for employees is generally calculated by multiplying the SG rate by gross wages (i.e. ordinary times earnings) and is payable by the following dates:

Quarter	Period	Payment Cut-Off Date
1	1 July – 30 September	28 October
2	1 October – 31 December	28 January
3	1 January – 31 March	28 April
4	1 April – 30 June	28 July

Finally, the SG age limit of 70 was removed from 1 July 2013, and employers are therefore required to contribute to the complying superannuation funds for employees aged over 70.

Proposed Superannuation Guarantee Amnesty

On 24 May 2018, Minister for Revenue and Financial Services announced the commencement of a 12 month Superannuation Guarantee Amnesty (the Amnesty).

The Amnesty is a one-off opportunity for employers to self-correct past super guarantee (SG) non-compliance without penalty.

Subject to the passage of legislation, the Amnesty will be available from 24 May 2018 to 23 May 2019.

Employers who voluntarily disclose previously undeclared SG shortfalls during the Amnesty and before the commencement of an audit of their SG will:

- not be liable for the administration component and penalties that may otherwise apply to late SG payments, and
- be able to claim a deduction for catch-up payments made in the 12-month period.

Employers will still be required to pay all employee entitlements. This includes the unpaid SG amounts owed to employees and the nominal interest, as well as any associated general interest charge (GIC).

The Amnesty applies to previously undeclared SG shortfalls for any period from 1 July 1992 up to 31 March 2018.

The Amnesty does not apply to the period starting on 1 April 2018 or subsequent periods.

Employers who are not up-to-date with their SG payment obligations to their employees and who don't come forward during the Amnesty may face higher penalties in the future.

Accessing the Amnesty is a simple process. If you are able to pay the full SG shortfall amount directly to your employees' super fund or (funds), then complete a payment form and submit it to us electronically through the business portal.

If you are unable to pay the full SG shortfall amount directly to your employees' super fund or (funds), then complete and lodge a payment form and we will contact you to arrange a payment plan. If you chose to, you can start payment before we contact you. This will reduce the GIC you would otherwise have to pay.

(Source: https://www.ato.gov.au/Business/Super-for-employers/Superannuation-Guarantee-Amnesty/)

If you require assistance to determine if your business complies with its SG requirements, or you would like to access the Amnesty, please contact our office.

Single Touch Payroll

Single Touch Payroll (STP) is a reporting change for employers.

It starts from 1 July 2018 for employers with 20 or more employees.

You will report to the ATO payments such as salaries and wages, pay as you go (PAYG) withholding and superannuation information from your payroll solution each time you pay your employees.

STP will be expanded to include employers with 19 or less employees from 1 July 2019. This is subject to legislation being passed in parliament.

You will not need to provide payment summaries to your employees for the payments you report through STP.

(Source: https://www.ato.gov.au/business/single-touch-payroll/about-single-touch-payroll/)

If you require assistance to determine if your business complies with its STP requirements, please contact our office.

Individual Tax Cuts

From 1 July 2018, if legislation passes, the 32.5% personal income tax threshold will be increased from $87,000 to $90,000. Therefore you should ensure that your payroll systems are updated to reflect this change.

The following tax rates apply from 1 July 2018:

Taxable income	Tax on this income
0 - $18,200	Nil
$18,201 - $37,000	19% over $18,200
$37,001 – $90,000	$3,572 plus 32.5% over $37,000
$90,001 – $180,000	$20,797 plus 37% over $90,000
$180,001 and over	$54,097 plus 45% over $180,000

The above rates do not include the Medicare levy of 2%.

$20,000 immediate tax write-off for business assets

Until 30 June 2019, if legislation passes, small businesses (i.e. turnover of less than $10 million) will be entitled to an immediate tax deduction for the purchase of business assets, each costing up to $20,000 (GST exclusive).

Eligible assets include cars (new or used), machinery, equipment and second hand items. Assets that don't qualify include horticultural plants, capital works (building construction costs etc.), assets leased to another party on a depreciating asset lease, etc.

Multiple assets, each costing up to $20,000, may be purchased throughout the year.

From 1 July 2019 the write-off threshold is expected to revert to $1,000 for all businesses.

Small business entity threshold increased to $10m

From 1 July 2016, the threshold to access the small business entity concessions increased from $2m to $10m enabling more businesses to access the following concessions:

- **Prepayments** - A small business is eligible to prepay business expenses where the service period for the expenditure is 12 months or less.

  The benefit of prepaying business expenses is that you bring forward the 2018/19 tax deduction into the 2017/18 year. However, you must bear in mind that the deduction will not be available in the 2018/19 year unless you again prepay the expense for the 2019/20 year, and so on.

  Cash flow permitting, you may consider prepaying business expenses covering a 12 month period such as rent, leases, subscriptions, etc.

- **Immediate deductibility for small business start-up expenses** - New small businesses can immediately deduct a range of professional expenses required to start up a business, such as professional, legal and accounting advice as well as amounts paid to Government agencies to set up their business entity.

- **Simpler depreciation rules** - Choose to pool assets and claim one deduction for each pool. Plus, access to the $20k accelerated deductions.

- **Simplified trading stock rules** - You can choose not to conduct a stocktake if there is a difference of less than $5,000 between the opening value of trading stock and a reasonable estimate of the closing value of trading stock at the end of the income year.

- **Roll-over for restructures of small businesses** – The ability to change your business's legal structure without triggering CGT or income tax implications on transferring depreciating assets or trading stock.

- **Accounting for GST on a cash basis** – You can choose to account for GST on a cash basis (i.e. when you receive payment for a sale made). Your business can also claim GST credits when you actually pay for a purchase.

- **Annual apportionment of input tax credits for acquisitions and importations that are partly creditable** - Account for the private portion of business purchases annually rather than on each activity statement. Full GST credits can be claimed for a business purchase and an adjustment made for the private portion of the purchase in a later activity statement.

- **Paying GST by quarterly instalments** - You can choose to pay a GST instalment amount worked out by the ATO that can vary each quarter. Annual GST returns are lodged for this method.

- **FBT car parking exemption** - An exemption from FBT on certain car parking benefits provided to employees.

Payroll tax grouping

The payroll tax threshold for the 2017/18 financial year is $750,000, with the excess being taxed at 5.45%.

Taxable wages for payroll tax purposes include, but are not limited to:

- Salaries and wages.
- Allowances.
- Employer superannuation contributions, including salary sacrifice amounts.
- Fringe benefits.
- Payments to some contractors.

The Payroll Tax Act contains "grouping provisions" whereby employers, or a group of related businesses, whose total Australian wages exceed the current threshold are required to pay payroll tax.

Please advise if you would like us to review the grouping provisions in relation to your business structure.

Company tax cuts

From 1 July 2016, the small business (i.e. turnover of less than $10 million) company tax rate was reduced to 27.5%. The company tax rates are as follows:

Income year	Turnover threshold	Company tax rate for entities under the threshold	Company tax rate for entities over the threshold
2015–16	$2m	28.5%	30.0%
2016–17	$10m	27.5%	30.0%
2017–18	$25m	27.5%	30.0%
2018–19 to 2023–24	$50m	27.5%	30.0%
2024–25	$50m	27.0%	30.0%
2025–26	$50m	26.0%	30.0%
2026–27	$50m	25.0%	30.0%

Other

Other planning opportunities you may consider include:

1. Delaying the receipt of income by issuing invoices to customers after 30 June 2018.

2. Bringing forward expenses. Note: you do not have to pay the expense before 30 June 2018 in order to obtain a tax deduction (other than staff superannuation). You need only to have "incurred" the expense which means obtaining an invoice dated pre-30 June 2018 resulting in an obligation to pay.

3. Undertake any repairs to business assets, etc. before 30 June 2018.

4. Pay or accrue bonuses to staff before 30 June 2018. If the bonus is paid in cash before 30 June 2018, the staff will bring this income into their personal tax returns for the 2018 year. However, if the bonus is accrued by the business before 30 June 2018, but paid to the staff after 1 July 2018, the business will obtain a tax deduction in the 2018 year.

5. If you have depreciating assets, you should review the asset register and write off any assets that the business has scrapped or disposed of. Note: if the asset was sold (including private sale), GST should have been charged on the sale.

6. Write-off bad debts. To be a bad debt, you need to have brought the income to account as assessable income, and given up all attempts to recover the debt. It needs to be written off your debtors' ledger by 30 June. If you don't maintain a debtors' ledger, a resolution confirming the write-off is a good idea.