Tax Planning – 2018

Income Tax Changes for 2017/18

Several tax changes apply in the 2017/18 income year. A brief summary is provided in this newsletter.

There may be some advantages in acting on some of these items before 30 June.

If you think any of these changes may affect you, please contact us for more details.

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General Year End Tax Planning Strategies

Business Income and Expenses

Subject to cash flow requirements, consider deferring income until after 30 June, especially if you expect lower income for 2018/19 compared to 2017/18.

Most businesses are taxed on income when it is invoiced. Some small businesses may be taxed only when income is received. Income from construction contracts is generally taxed when progress payments are invoiced or received.

Ensure that you have complied with the requirements to claim deductions in 2017/18:

- Bad debts must be written off in your accounts before 30 June.
- Employer and/or self-employed superannuation contributions must be paid to, and received by, the super fund before 30 June and must be within the contributions cap ($25,000 for all individuals regardless of age).
- Depreciation can be claimed for assets first used, or installed ready for use, before 30 June.
- Small businesses (turnover less than $10m), can claim expenses prepaid up to 12 months in advance – for larger businesses, this is generally limited to expenses below $1,000.
- Wages paid to your spouse or family members must be reasonable for the work performed.

"The small business instant asset write-off for assets costing less than $20,000 has been extended until 30 June 2018."

Small businesses planning major purchases or replacement of capital equipment should contact us for advice. Careful timing of those transactions can result in substantial tax savings.

Scrap any obsolete item in the asset register before 30 June. Consider delaying sale of assets that will realise a profit on sale and bring forward if it will be a loss.

Review valuations of trading stock in the lead up to 30 June. Best practice is generally to value stock at the lower of cost or market selling value.

This may change if you expect a tax loss for 2017/18, or substantially higher income in 2018/19 compared to 2017/18.

Personal Income, Deductions and Tax Offsets

Subject to cash flow requirements, set term deposits to mature after 1 July, rather than before 30 June.

Consider realising capital losses if you have already realised capital gains on other assets during 2017/18. Conversely, consider realising capital gains if you have unrecouped capital losses, or you expect substantially higher income in 2018/19 compared to 2017/18.

If you expect lower income in 2018/19 due to retirement or any other reason, consider deferring income until after 1 July, when you will be in a lower tax bracket. If you are a primary producer and you expect a permanent reduction in income, consider withdrawing from the income averaging system.

Arrange for deductible donations to be grouped in the higher income year, if you expect substantially higher or lower income in 2018/19 compared to 2017/18. Make all donations in the name of the higher income earner.

Access to the Net Medical Expenses Tax Offset is being phased out and restricted to medical expenses relating to disability aids, attendant care or aged care until 2018/19.

Other Tax Planning Considerations

Contact us for advice if you have moved to or from Australia for an extended period. You may need to review your residency status for tax purposes. There are important tax consequences if you change residency.

Trustees of trusts should ensure that all necessary documentation is completed before 30 June, where you intend to stream capital gains or franked distributions to specific beneficiaries.

Family discretionary trusts may need to make a family trust election if the trust has unrecouped losses, or has beneficiaries whose total franking credits for the year may exceed $5,000.

Be sceptical of year-end tax shelter schemes. You should not enter a scheme without advice regarding both its tax consequences and commercial viability.

Income Tax Changes – Small Businesses

Tax Rate

The government has proposed to limit the entities subject to lower corporate tax rate to base rate entities with no more than 80% passive income from 2017/18. At the time of writing, this law has not yet passed.

For the 2017/18 year, the aggregated turnover threshold is $25m and the base rate entity tax rate is 27.5%.

The small business income tax offset remains the same, which is 8% discount of the income tax payable on the business income received from a small business entity (other than a company) with aggregated turnover of less than $5m, up to a maximum of $1,000 a year.

Accelerated Depreciation

An immediate deduction is still available for an asset costing less than $20,000 acquired and first used or installed ready for use on or before 30 June 2018.

The balance of the general small business pool is also immediately deducted if the balance is less than $20,000 at 30 June.

Income Tax Changes – Individuals

Personal Superannuation Contributions

Deductions for personal superannuation contributions are now allowed for all individuals under the age of 75 (including those aged 65 to 74 who meet the work test). Previously, a deduction was only available to individuals whose employment income was less than 10% of their total income. If you would like to receive further information, please contact us to discuss.

"All individuals under 75 years old (including those aged 65 to 74 who meet the work test) are eligible to claim a deduction to personal super contributions made to an eligible super fund."

Rental Properties

From 2017/18 tax year, travel expenses relating to inspecting, maintaining or collecting rent for residential investment properties are not deductible, unless you are carrying on a business of property investing.

Deductions for depreciation will be limited to costs that the taxpayer actually incurred to purchase the plant and equipment in the current year, not to successive investors in the property.

Superannuation Changes

Superannuation Contributions

The concessional contributions cap for the 2017/18 has been reduced to $25,000 for all individuals regardless of age.

The non-concessional contributions cap for the 2017/18 has been reduced to $100,000. Individuals with total superannuation balance of more than $1.6 million are not eligible to make non-concessional contributions.

The full co-contribution rate applies for income up to $36,813 and the partial co-contribution applies for income up to $51,813 for the 2017/18 tax year.

Retirees or Those Approaching Retirement

From 1 July 2017, the earnings of a transition to retirement pension will be taxed at up to 15%, the same as they are in a super accumulation account. The earnings of ordinary retirement pensions are still tax free.

The transfer balance cap was introduced on how much super can be transferred to a tax-free account based pension. Excess transfer balance tax is payable for exceeding the cap.

The transfer balance cap for the 2017/18 tax year is $1.6 million and will be indexed by CPI, rounded down to nearest $100,000.

Low Income Earners

The spouse contributions tax offset will be available for individuals contributing to the superannuation account of a spouse whose income is up to $37,000. This will fade out completely when the spouse's income reaches $40,000.

The low income superannuation contribution scheme has been replaced by the low income superannuation tax offset. Individuals with an adjusted taxable income up to $37,000 will receive a refund into their superannuation account of the tax paid on their concessional superannuation contributions, to a cap of $500.

High Income Earners

The maximum super contributions base for high income earners is $211,040 per annum for the 2017/18 tax year.

High income earners become liable to pay Division 293 tax when their income for surcharge purposes reaches $250,000 (previously $300,000).

"Substantial changes to the superannuation system affecting individuals and SMSFs took place from 1 July 2017. Please contact us if you would like to discuss how they may affect you."

Please contact us to discuss any of these items that may impact your tax position for the 2017/18 year.

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Capital Gains Tax

Foreign Resident CGT Withholding

When a foreign resident (vendor) disposes a taxable Australian property with a market value of $750,000 or more, the purchaser is required to withhold 12% of the sale price, unless the vendor has a clearance certificate from the ATO.

Non-Resident CGT Main Residence Exemption

From 9 May 2017, the main residence exemption is no longer available to foreign and temporary tax residents. Properties held prior to this date will be grandfathered until 30 June 2019.

Fringe Benefits Tax

FBT Rate

The FBT rate for the year ending 31 March 2018 is 47%.