

2016 CLIENT NEWSLETTER

Welcome to the Patison Partners 2016 Client Newsletter. With a Federal Election coming up on 2 July, we are in an environment of uncertainty.

We provide information on a couple of key changes which are immediately upon us, followed by information on some major issues which we believe may be of interest to many of our valued clients.

Treasurer Scott Morrison has delivered his first budget, which has been a cause of much discussion. Whilst these measures are yet to be passed as law, we provide a summary of those which we see as being the most important to you, and also provide a comparison with the changes which are proposed by the current opposition party.

If you have any queries which arise from any part of this newsletter, please don't hesitate to contact us.

Lastly from all of us at Patison Partners, we thank you, our valued clients for your ongoing support and look forward to working with you in the coming year.

SuperStream Has Arrived

SuperStream is a government reform aimed at improving the efficiency of the superannuation system and it applies to all employers from 1 July 2016.

Under SuperStream, employers must make super contributions on behalf of their employees by submitting data and payments electronically in accordance with the SuperStream standard.

As an employer your options are as follows to adopt SuperStream:

- Update your payroll software
- Use an outsourced payroll service provider
- Use the free small business superannuation clearing house

To make contributions on your employees behalf you will need the following information from their superannuation funds:

- Unique Superannuation Identifier (USI) for APRA-regulated Funds
- ABN for Self Managed Superannuation Funds
- Bank account details
- Electronic Service Address (ESA)

All superannuation funds, including Self Managed Superannuation Funds (SMSF's), must receive any employer contributions sent to their fund in accordance with the SuperStream standard.

In particular, they will need to ensure the SMSF's bank account is able to receive electronic contribution payments and that the SMSF can receive a contribution message with information about these payments in the SuperStream format.

A SMSF will need an Electronic Service Address to be able to receive data messages associated with employer contributions sent using SuperStream.

For further information on how SuperStream will work for you please contact your Patison Partners advisor.

Warragul Office

61-63 Victoria Street
Warragul Vic 3820

T 03 5623 2276

F 03 5623 5316

warragul@patison.com.au



Pakenham Office

3 Cook Drive
Pakenham Vic 3810

T 03 5941 3322

F 03 5941 3697

pakenham@patison.com.au



Partners

Michael Vick
Wayne Heale
Ron Hogan
Andrew Dalrymple
Katrina Magyar
Frank Monacella
John-Paul D'Amico

Have you checked out our
website lately?

www.patison.com.au



Liability limited by a scheme
approved under Professional
Standards Legislation

Superannuation

Contribution Caps 2015/16

A reminder that concessional superannuation contribution caps for 2015/16 are as follows:

- Born before 30 June 1966 \$ 35,000
- Born after 30 June 1966 \$ 30,000

In addition, contributions must be received by your Superannuation Fund by 30 June for you to be able to claim a tax deduction, therefore it is prudent to transfer funds at least a few days prior to that date.

Collectible Assets in SMSFs

If you hold a collectible asset in your SMSF you must comply with new ATO legislation from 1 July 2016.

A collectible asset applies to an investment involving any of the following:

- Artwork
- Jewellery
- Antiques
- Artefacts
- Coins, medallions or bank notes
- Postage stamps or first day covers
- Rare folios, manuscripts or books
- Memorabilia
- Wine or spirits
- Motor vehicles and motorcycles
- Recreational boats
- Memberships of sporting or social clubs

The new rules state that a SMSF that invests in collectibles or personal use assets must:

- Not lease the asset to a related party
- Not store the asset in the private residence of a related party
- Not permit use of the asset by a related party
- Document decisions regarding storage of the asset and retain these documents for 10 years
- Insure the asset in the name of the SMSF
- Obtain a valuation by a qualified independent valuer each year the asset is held

A 'related party of the fund' includes the SMSF members, relatives of the SMSF members and any partnerships, partners of partnerships (if a member is in partnership with them) and trusts and companies that SMSF members control.

If your SMSF does not comply with the new rules, ATO penalties range depending on the severity of the breach. The Auditor must issue a contravention report which will trigger ATO penalties. Penalties range from \$110 up to \$220,000 and/or 5 years imprisonment. Furthermore, the ATO can take action to disqualify trustees and freeze your SMSF's assets.

If your fund is made non-complying, a 49% tax is imposed on the market value of your SMSF's investments and the SMSF's investment earnings will be taxed at 49% until the fund is deemed complying.

Division 7A

Where a company advances funds to a director or related party, or where assets that belong to a company are used for personal use, a tax issue known as "Division 7A" can be triggered.

The ATO are increasing their compliance and audit activity with a renewed focus on the following areas:

- Effective minimum repayments
- Complying loan agreements
- Business assets being used for private purposes

ATO penalties are harsh, with non-complying loans triggering a deemed dividend taxed at 49% in the hands of the shareholder, plus loss of relevant franking credits.

If you are unsure with regard to your potential exposure to Division 7A please contact your advisor to discuss.

Work Related Car Expenses

From 1 July 2015 the 12% of original cost and one-third of actual expenses method which are used by only 2% of those who claim motor vehicle expenses have been removed.

The cents per kilometre method is now one rate set at 66 cents per kilometre, regardless of engine size.

The log book method for calculating expenses continues. We do encourage all clients who claim using this method to ensure they have valid log books, as this is becoming an ATO target area.

\$20,000 Small Business Asset Write Off

We remind all our qualifying small business clients that the \$20,000 asset write off is available until 30 June 2017.

Review Results Pre 30 June

We wish to remind all our clients of the importance of reviewing your results prior to 30 June 2016 with your advisor. Actions which can be undertaken include, but are not limited to:

- Prepay expenses if you are a small business
- Defer invoicing where appropriate
- Pay employee superannuation prior to 30 June 2016 to obtain a tax deduction
- Write off any bad debts prior to 30 June 2016
- Consider purchasing equipment <\$20,000 prior to 30 June 2016
- Review fixed assets and write off any no longer in use for a tax deduction
- Perform stock take and isolate any obsolete items
- For companies, review any loans made to associates
- For trusts, plan and document year end trust resolutions

2016 Federal Budget Update

The 3 May 2016 Federal Budget contained many items. We provide details below of those we see as most relevant to you.

Please note these proposed changes are not legislated. Where there is a difference with the proposed policy from the opposition Labor party, we provide that to you, as means of comparison for information purposes only and not for political comment.

Definition of Small Business

The Coalition are proposing to widen the definition of a small business to one which turns over less than \$10 million. Labor are proposing it remains the same at \$2 million. This is important as small businesses have the following taxation benefits:

- Income Tax cuts
- Simplified depreciation (pooling)
- \$20,000 asset write off
- Option to account for GST on a cash basis

Small Business Tax Cuts – Companies

The Coalition are proposing that the tax rate for companies with a turnover of less than \$10 million will be reduced to 27.5% from the 2016/17 income year.

The turnover threshold rate for companies entitled to the 27.5% tax rate would increase as follows:

- \$25 million in the 2017/18 year
- \$50 million in the 2018/19 year
- \$100 million in the 2019/20 year
- \$250 million in the 2020/21 year
- \$500 million in the 2021/22 year
- \$1 billion in the 2022/23 year

Labor are proposing to limit the company tax cut to companies turning over less than \$2 million only.

Small Business Tax Cuts – Other Entities

Under the Coalition, taxpayers operating through a Trust, Partnership or as a Sole Trader will receive a 5% discount on the income tax payable on business income received. This will increase to 10% over 10 years. This will apply to businesses with a turnover under \$5 million.

The discount will be capped at \$1,000 per individual and delivered as a tax offset, not a refund.

It's important to remember you need to make a profit to benefit from these changes.

Labor are proposing to limit this measure to businesses with a turnover of less than \$2 million.

Accelerated Depreciation on Purchases up to \$20,000

A small business can claim an immediate deduction for the cost of an asset. This has been temporarily increased to \$20,000.

The \$20,000 threshold will continue to apply for assets acquired and ready for use before 30 June 2017 and applies to new and second hand assets.

In broad terms this simply means that rather than write the asset off over a number of years, a tax deduction is claimed for the full amount in the first year.

The Coalition are proposing to apply this to businesses with a turnover of less than \$10 million, whereas Labor are seeking to restrict it to those turning over less than \$2 million.

GST on Imports

GST will be extended to all imported goods from 1 July 2017. This will bring Australia into line with other OECD countries. Overseas suppliers will be required to register and remit GST where their turnover is greater than \$75,000.

Most importantly this will finally create a level playing field for local retailers.

Excise Tax

Excise tax on cigarettes will rise by 15.5% per year from 2017-2020. It is estimated by 2020 a packet of cigarettes will cost \$40.

Personal Tax Cuts

The 32.5% income tax threshold will rise from \$80,000 to \$87,000. For a taxpayer earning \$87,000 or over, this will be a tax cut of \$315 per year.

Budget Repair Levy

At present there is a 2% budget repair levy (tax) on incomes over \$180,000. The Coalition are proposing this ceases on 30 June 2017. The Labor party are planning to continue this until 2020.

Negative Gearing

Labor plan to restrict negative gearing to new housing only, from 1 July 2017. There will be no changes to assets purchased prior to this date.

The Coalition plan no change to negative gearing.

Capital Gains Tax Discount

Labor are proposing to reduce the capital gains tax discount on assets purchased after 1 July 2017 from 50% to 25%. All investments purchased before this date would not be affected and be fully grandfathered.

Superannuation

There have been many changes proposed by both parties to Superannuation. Whilst they will change the landscape somewhat, superannuation will still retain its attractiveness as a highly tax effective vehicle under either political party.

Work Test

At present if you are over 65, you cannot make super contributions unless you work for at least 40 hours in a 30 day period.

The Coalition are proposing that this be removed, whereas Labor are proposing that this be retained.

Concessional Contributions

The Coalition are proposing that these be reduced to \$25,000 from 1 July 2017 (down from \$30,000 for under 50's and \$35,000 for those 50 or over). Labor are proposing that they remain as is.

The Coalition would allow "catch up" contributions to be made for taxpayers with super balances less than \$500,000 (calculated on a rolling basis). This would provide an opportunity for people with interrupted work or savings patterns to catch up with retirement savings and potentially mitigate the effect of the reduction.

Higher Income Superannuation Charge Threshold

Both parties are proposing that the threshold for the extra 15% superannuation contributions be reduced from \$300,000 to \$250,000 from 1 July 2017. This means taxpayers earning greater than \$225,000 need to reconsider salary sacrifice arrangements.

Non-Concessional Contributions

The Coalition proposes that from 3 May 2016, all Australians will be subject to a lifetime cap of \$500,000 for non-concessional contributions.

This change is a big shock considering that under the current rules, an individual under the age of 65 can make up to \$540,000 in non-concessional contributions over a 3 year period. Effective from 1 July 2017, the lifetime limit of \$500,000 will take into account all non-concessional contributions paid into superannuation funds since 1 July 2007. The \$500,000 cap will be indexed annually to Average Weekly Ordinary Times Earnings (AWOTE).

Labor propose no change in this area.

Transition to Retirement Pensions

The Coalition propose major changes to Transition to Retirement Pensions (pensions from superannuation funds where the member is aged below 65).

Earnings will no longer be tax free and will attract the same rate of earnings tax (15% and 10% CGT), as accumulation funds. Furthermore the election to treat withdrawals as tax-free lump sums will no longer be available.

Labor propose no change in this area.

Pension Income Streams

The Coalition propose the following changes to pension income streams within super:

- There will be a \$1.6 million transfer balance cap for retirement pensions from 1 July 2017, limiting superannuation balances in pension mode to \$1.6 million per member
- The balance can remain within super and be taxed at 15% and 10% CGT, or withdrawn

Labor propose a different method of taxing super balances in pension mode by taxing pension balances earning in excess of \$75,000, at a rate of 15% and 10% CGT.

Questions for your Accountant

IMPORTANT DISCLAIMER: This is not advice. Clients should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of these areas. This newsletter is issued as a helpful guide to clients and for their private information. It should be regarded as confidential and not be made available to any person without our prior approval.