TAX MATTERS

TAX STRATEGIES FOR YOU AND YOUR BUSINESS

BUDGET EDITION 31–2019

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MGR ACCOUNTANTS
YOUR BUSINESS ADVISERS FOR LIFE

Rewarding working Australians

The 2019 Federal Budget focuses on rewarding working Australians, with the emphasis on a two-pronged approach for "hard-working" individuals.

Individual taxes:

From the 2018-2019 income year, the low and middle-income tax offset (LMITO) has been increased by $550. This now means individuals can have their tax reduced by up to $1,080 and dual income families up to $2,160 after lodging tax returns for the 2018-19 year.

In 2024-25, the 32.5% tax rate will be reduced to 30%, creating only three tax brackets for Australians. It is projected that by 2024-25, 94% of taxpayers will face a marginal rate of 30% or less. With this new plan, the 19% rate threshold (24% of taxpayers) will be increased from $41,000 to $45,000, the 30% rate (70% of taxpayers) will be $45,001 to $200,000 and the 45% rate (6% of taxpayers) will be over $200,000.

Expanded super for older Australians:

Older Australians will benefit from the work test exemption age being extended from age 64 to 66. The work test requires an individual to work at least 40 hours in any 30 day period in the financial year in order to make voluntary personal contributions.

This change in age will now allow individuals aged 65 and 66, who previously didn't meet the work test, to contribute three years of after-tax contributions in a single year, meaning up to $300,000 can be injected into an account with less than $1.6 million in super (tax-free pension threshold). This adjustment aligns with the increase for the Age Pension from 65 to 67.

Spousal contributions can now be made until age 74, up from age 65, without having to meet the work test. Under spousal contribution regulations, an individual can claim an 18% tax offset of contributions up to $3,000 made on behalf of a non-working partner. A further $3,000 can be contributed but with no tax offset.

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Supporting the vulnerable

While the Budget has placed a strong focus on business and growth of the economy, the Government is also making sure to address the needs of those in the community who have faced hardships and fallen behind in recent years.

Farmers and farming communities affected by natural disasters and older Australians are among those being benefited.

Supporting the farming business

The Budget has put in place the mechanism to ensure that no single group will shoulder the burden of drought that is currently affecting farmers across much of Australia. There will be funding provided in drought assistance and concessional loans for farmers and farming communities, helping them to get through tough times and increasing access to income support through the Farm Household Allowance.

Supporting farmers in floods:

The recent floods devastating the Queensland farming community have created a need for the Government to assist the industry in restoring their vital contribution to the national economy and local communities. Flood-affected farmers will have access to up to $300 million in grants to help rebuild damaged farm infrastructure, replace livestock and replant crops.

Along with the support provided to the farmers currently experiencing hardship, the Government will prepare for and mitigate the impact of future natural disasters by investing significant funding in new weather radars, the Future Drought Fund, and the creation of a new Emergency Response Fund.

Supporting older Australians:

Funding to the aged-care sector in 2019-20 has increased by more than 50% since 2013-14, and will allow older Australians to access more choices in better-quality and safer aged-care. For older Australians who wish to stay at home for longer, support will be provided through an additional 10,000 home care packages at all levels.

Changes to PAYG withholding obligations

New penalties for business' Pay As You Go (PAYG) withholding and reporting obligations will commence 1 July 2019.

You will only be able to claim deductions for payments made to employees and certain contractors where you have met the PAYG withholding rules for each payment.

Payments that are impacted include salary, wages, commissions, bonuses or allowances to an employee, payment under a labour-hire arrangement or payments for a supply of service.

Specifically, the new laws will prevent an employer from claiming a deduction for payments to employees if they:

Fail to withhold an amount from the payment as required under PAYG withholding rules.

Fail to report a withholding amount to the ATO.

This measure highlights a key reason why governance across all employment tax is important. If you make a mistake by failing to withhold an amount or to report it and you voluntarily disclose this to the ATO before an audit or other compliance activity in regards to your tax affairs, your business will not lose its deduction. Taking early action to ensure your business is compliant to these updated PAYG withholding laws will make a difference to whether you remain eligible for deductions.

Business or private? Know where to claim GST

Goods and services tax (GST) is applied to most goods and services sold in Australia, taxed at a rate of 10%.

If you run a business, you are likely to have GST obligations, such as claiming credit for any GST included in the price of goods and services that have been purchased for your business. However, many businesses have expenses that are used privately as well as for business purposes. This means that a business must divide the GST on these costs between private and business use.

The ATO allows an annual adjustment for these expenses when it comes to determining exactly how much something is used for business or private purposes. Common types of purchases that can be made for both business and private use include:

- Home office costs/home power use.
- Home telephone and internet costs.
- Motor vehicle purchases and running costs.
- Computers and other electronic devices.

When a business pays for goods or services that can be used in business but also privately, the expenses must be apportioned to ensure that only the business part of the said expense is claimed. As this process can be extremely tricky, the ATO allows certain businesses to simplify the accounting for GST between the business and private use by making an annual apportionment election under Division 131 of A New Tax System (Goods and Services Tax) Act 1999. This means that a business can claim the full amount of GST on the payment, that includes both the business and private use components during the financial year, on the relevant business activity statements (BAS).

At the end of the financial year when the business' income tax return is being finalised, adjustments can be made to account for the reduction in the GST amount for private use that can be claimed back. The adjustment will either increase the amount of GST that businesses are liable to pay or reduce the GST refund for the tax period the adjustment is made in.

How property investors can get more back

Many property investors can access a wide range of tax deductions for their rental property and items subject to depreciation.

Property investors may not be aware of the number of items that can be tax-deductible, such as accounting, bookkeeping and tax expenses relating to the property. Here are some tips to help you maximise on your claims:

Use a quantity surveyor:

Registered quantity surveyors can establish the value of purchased items and building construction costs by preparing depreciation schedules to maximise an investor's claim.

Items as diverse as kitchen equipment, bathroom fittings, outdoor furniture, air conditioning and swimming pools are all legitimate claims. A quantity surveyor will ensure valuations of the items in the building are at market value, avoiding the need to explain any valuations that are higher than expected to the ATO. The cost of using a quantity surveyor is also tax deductible.

Distribute expenses:

It is common for investors to bundle a mix of properties under one single loan, i.e. the family home and a rental property may be funded by the same mortgage and expenses apportioned accordingly. However, having separate loans can increase deductions as the non-deductible debt can be paid down or even better linked to an offset account, with the deductible loan having full interest paid and claimed.

Immediate write-offs:

An immediate write-off applies to items worth less than $300 and can be claimed in the current income year. Items such as garden gnomes, kitchen cutlery, ironing boards and irons are easily forgotten and can all be written off in the first year.

Depreciation:

Construction costs can generally be depreciated at 2.5% each year over 40 years for residential properties built after July 1985. This entitlement passes from one owner to the next whenever the property is sold. A quantity surveyor can provide an estimate if information is not available.

Many high-value household items are now deducted using the "diminishing value method", which means the most depreciation happens in the first few years. For example, ducted heating worth $4941 would have a first-year deduction of $493, rising to $2022 over the first five years.

Adding items such as solar lights, garbage bins, garden sheds, intercom systems and closed-circuit television systems to a low-value pool can open up ways to depreciate items at a higher rate, therefore increasing immediate returns.

A business growth based Budget

The 2019 Federal Budget focuses on building a better tax system for Australian businesses in order to create a stronger economy.

Instant asset write-off:

The instant asset write-off threshold will be increased from $25,000 to $30,000 and be extended from businesses with an annual turnover of up to $10 million to medium-sized businesses with a turnover of less than $50 million. The threshold will apply on a "per asset" basis, meaning that eligible businesses can instantly write off multiple assets. The new rules will apply from 2 April 2019 and are set to remain in place until 30 June 2020.

Simplified depreciation pools:

The concession has been extended to allow small businesses to place assets into the small business simplified depreciation pool where they cannot be immediately written off, allowing assets to be depreciated at 15% in the first year and 30% each subsequent income year.

Lowered tax rates:

Companies with an annual turnover of below $50 million will have their tax rate lowered to 25% by 2021-22, five years earlier than previously planned. Changes to the unincorporated small business tax discount rate will also be accelerated, increasing from the current rate of 8% to 16% by 2021-22 up to the cap of $1,000.

Reducing red tape:

The Government has introduced a number of measures to make running a small business a little easier. These include streamlining GST reporting for small businesses by reducing the number of BAS GST questions and assisting small businesses involved in disputes with the ATO.

Integrity of the tax system:

Maintaining the integrity of the tax system remains a key part of this budget. The Budget provides resources to help monitor high-risk industries dealing in the "black economy" and ensure that all businesses meet their payment obligations with respect to tax and superannuation.

The Government has announced further resources will be provided to improve their ability to recover unpaid taxes and superannuation.

ATO statistical analysis:

From 2018-19, the Government will provide funding over two years to increase the ATO's analytical capabilities. This will include migrating the ATO to a new data centre facility and demonstrating a commitment to improving information the Tax Office relies on to better detect unusual taxpayer behaviour.

Amendments to Division 7A:

The Government announced that it will defer the start date of the proposed changes to Division 7A rules by a year, from 1 July 2019 to 1 July 2020. The rule requires benefits provided by private companies to related taxpayers be taxed as dividends unless they are structured as complying loans or subject to other exemptions. The proposed amendments include simplifying Div 7A loan rules to make it easier for taxpayers to comply.

Job skills to better tomorrow

The vocational education and training (VET) sector is receiving an investment of $525 million over a five year period to equip workers with the skills they need.

The Additional Identified Skills Shortage Payment has been created to support up to 80,000 new apprentices over the next five years. Apprentices will be eligible for $2,000 incentive payment, receiving $1,000 after 12 months and $1,000 at the completion of the apprenticeship. Employers will also receive a total payment of $4,000, receiving $2,000 after 12 months and $2,000 at completion. This is in addition to the existing standard employer incentives for apprenticeships of $1,500 at commencement and $2,500 at completion.

Eligible occupations include carpenters, joiners, plumbers, air-conditioning/refrigeration mechanics, bricklayers/stonemasons, plasterers, vehicle painters, tilers, arborists, hairdressers, bakers and pastry cooks. Eligible occupations will be reviewed annually to ensure current and expected skills shortages are captured.

The introduction of a new foundational language, literacy, numeracy and digital skills program will help to better individuals skills that are needed in education and employment. Eligibility criteria applies, and participants must:

- Be between 15 and 44 years of age as well as being an Australian citizen or permanent resident.
- Have left secondary school education.
- Be employed or recently unemployed and not registered for an employment services program.

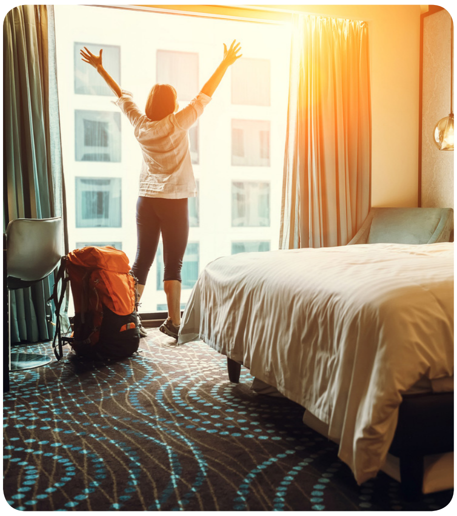
Investments will be made over a four year period to Skill Organisations in areas of human services care and digital technologies. These organisations around the country will trial new ways to update and develop VET qualifications to help meet the growing need for skilled workers.

Over four years, the Government will establish a National Careers Institute (NCI). The NCI will be driving research into future skills and the national labour market, including arising technological areas such as automation and artificial intelligence. The NCI also aims to help in raising the profile of the VET sector while providing individuals with access to education and career information in one web portal.

When you can claim travel allowance and expenses

Knowing what you can claim from travel allowances and expenses can be difficult as in some cases, tax deductions from an allowance are to be withheld unless specified otherwise.

The reasonable amount of travel expenses is updated yearly and is based on job type and salary. On the occasion that you are required to travel overnight for work, you may be eligible to receive a travel allowance from your employer for accommodation, food, drink or incidental expenses.



Where exceptions apply, your employer won't withhold tax and will include the allowance on your payslip. These exceptions are:

- You are expected to spend all of the travel allowance you have been paid.
- The amount and nature of the travel allowance is kept separately in accounting records.
- The travel allowance is not for overseas accommodation.
- The amount of travel allowance paid is less than, or equal to the reasonable travel allowance rate.

It is important to keep detailed records of your travel expenses, length of trips and if it was overseas or domestic travel. If you claim anything from these trips in the future, you will need to provide the appropriate documentation covering all expenses, not just excess amounts. Vehicle, food, accommodation and incidental expenses need to be documented on a case by case basis:

With a travel allowance;

- Written evidence needs to be supplied for overseas accommodation.
- A travel diary needs to be supplied on overseas trips of 6 nights or more in a row.

Without a travel allowance;

- Written evidence needs to be supplied on all domestic and overseas travel.
- A travel diary needs to be supplied on domestic and overseas trips of 6 nights or more in a row.

Say goodbye to AUSKey

The ATO is developing new online services systems as AUSKey will be retired next year. Replacing AUSKey will be myGovID and Relationship Authorisation Manager (RAM).

MyGovID will be a way to prove who you are online as an individual. This system will work by establishing your identity once online and then using your myGovID credentials to access government services you need online. The myGovID will feature facial recognition, ability to scan identity documents and options to add or remove multiple devices.

Relationship Authorisation Manager (RAM) will manage authorisations across government services for businesses and their staff. RAM gives you the ability to add multiple businesses, access the business portal on behalf of multiple businesses, modify authorisations, customise and delegate the level of business authorisation for employees and nominate who can act on behalf of your practice.

AUSkey can still be used to access online ATO services while myGovID and RAM are being developed.