Taxwise Business News

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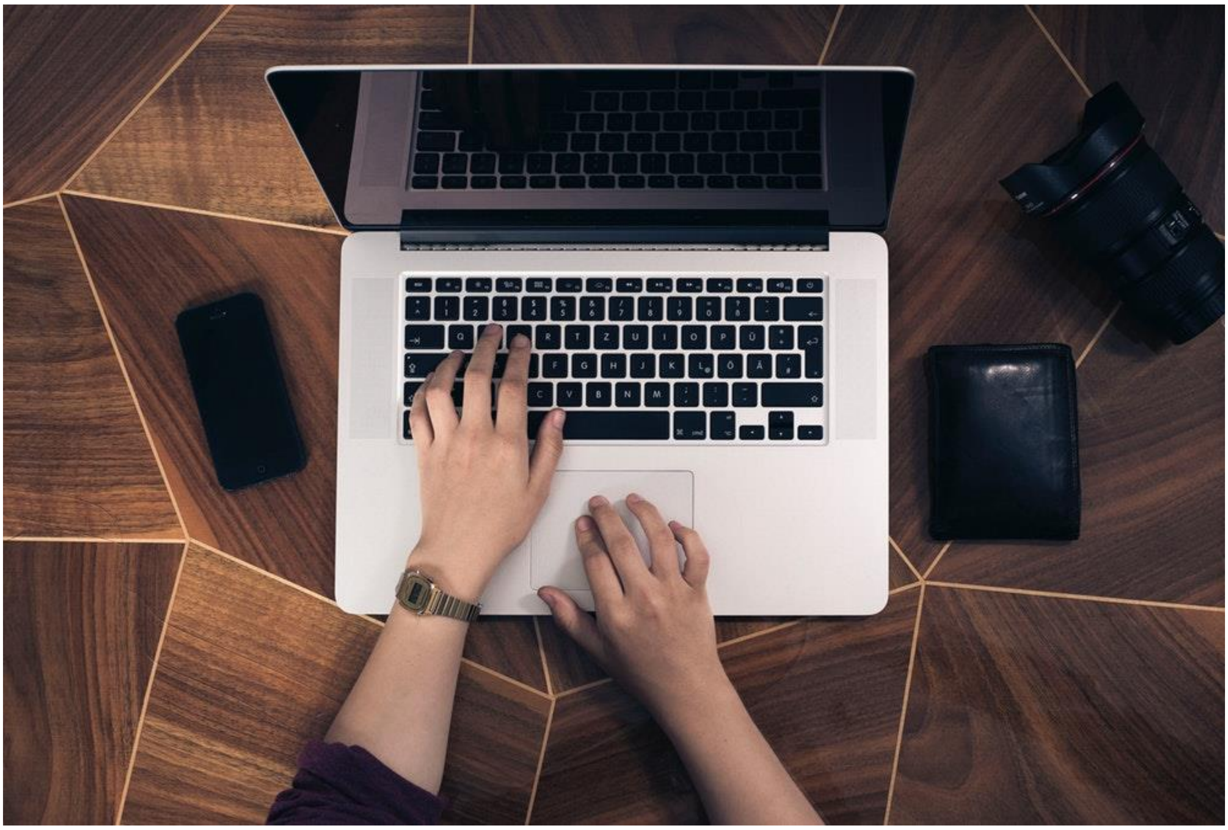


It's tax time 2018! What you need to know about the key changes

It's that time of year again – tax return time!

Before you complete your tax return for 2018, here are some key dates, changes and information that you should be aware of in case they affect you.

What's new for small business?

Several new tax time-related changes have happened since last year that may affect you. Here are a few of them to be aware of.

1. **Lower company tax rate changes**

   From 1 July 2017, companies that are base rate entities will apply the 27.5% corporate tax rate.

   A company is a base rate entity for 2017-18 if it has an aggregated turnover of less than $25 million and is carrying on a business for all or part of the income year.

   The company tax rate will remain at 30% for other companies that are not base rate entities.

   The lower 27.5% company tax rate will progressively apply to base rate entities with a turnover less than $50 million by the 2018-19 income year. From 2024-25, the lower company tax rate will reduce each year until it is 25% by 2026-27.

Note!

- A company may be a base rate entity to access the lower company tax rate and also be a small business entity to access the small business concessions.
- The maximum franking credit that can be allocated to a frankable distribution has also been reduced to 27.5% for these companies, in line with the company tax rate.

2. $20,000 instant asset write-off threshold extended

The $20,000 instant asset write-off threshold has been extended until 30 June 2018. This means that if you bought an asset before 30 June and it cost less than $20,000, you can write off the business portion in your 2018 tax return.

If you are a small business, you can immediately deduct the business portion of most assets that cost less than $20,000 each if they were purchased:

- from 1 July 2016 to 30 June 2018, and your turnover is less than $10 million and the asset was first used or installed ready for use in the income year you are claiming it in;
- from 7.30pm on 12 May 2015 to 30 June 2016, and your turnover is less than $2 million.

This deduction is used for each asset that costs less than $20,000, whether new or second-hand.

Note!

- Assets that cost $20,000 or more can't be immediately deducted. They will continue to be deducted over time using the general small business pool.
- You write off the balance of this pool if the balance (before applying any other depreciation deduction) is less than $20,000 at the end of an income year.

In the latest Federal Budget, there was a proposal to extend the $20,000 instant asset write-off threshold to 30 June 2019. This change is not law yet.

3. Expanded access to small business concessions

More businesses are now eligible for most small business tax concessions.

A range of small business tax concessions became available to all businesses with turnover less than $10 million (the turnover threshold) from 1 July 2016. The previous turnover threshold was $2 million.

The $10 million turnover threshold applies to most concessions, except for:

- the small business income tax offset, which has a $5 million turnover threshold from 1 July 2016
- capital gains tax (CGT) concessions, which continue to have a $2 million turnover threshold.

The turnover threshold for fringe benefits tax (FBT) concessions increased to $10 million from 1 April 2017.

4. Single touch payroll

Single touch payroll (STP) is a reporting change for employers. It started on 1 July 2018 for employers with 20 or more employees.

You will report 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.

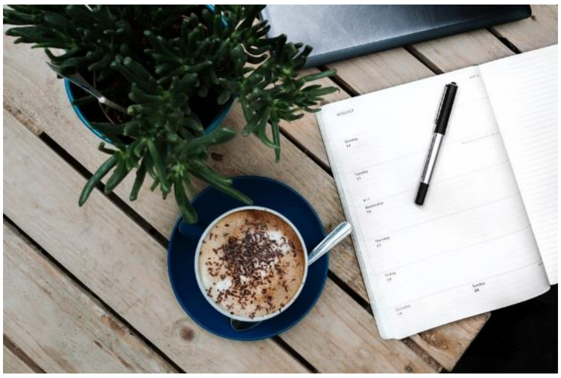
You can do this through your existing payroll software (such as accounting software) as long as it is updated to offer STP reporting. Payroll software providers are updating their products now. Speak to your Rees Pritchard tax adviser to find out how and when your product will be ready.

- If you have 20 or more employees you will need to report through STP from 1 July 2018. The first year will be a transition period and penalties may not apply.
- If you have 19 or less employees, you will need to report through STP from 1 July 2019, subject to legislation being passed in parliament.

5. Sale of low value goods

If your small business is registered for GST and imports low value goods for business use in Australia, you may not need to pay GST. You simply need to tell your overseas supplier that you are registered for GST, and provide them with your ABN.

If you are not registered for GST, GST can apply to these purchases.



What business income do I need to declare?

When thinking about business income, start by including all of your gross earnings received through the ordinary course of your business. This includes any cash, EFTPOS, credit or debit card, and online sales.

There may be other sources of business income you need to declare, depending on your circumstances.

Some common examples include:

- net capital gains made when disposing of business assets
- rental income from property owned by your business
- any assessable government industry payments such as fuel tax credits
- foreign income from overseas business activities (if you're an Australian resident)
- distributions to your business from partnerships and trusts.

Note!

If you are running a business and are paid mainly for your personal efforts, skills or expertise, you may be earning personal services income (PSI).

What can I claim for my business at tax time?

You can claim most expenses you incur in running your business. While different businesses will have different costs, here are common expenses:

- **Operating expenses**

  Most businesses have everyday operating expenses, including then costs of stationery, trading stock, advertising, bank fees and insurance. There are also operating expenses when your business is online such as registration, web hosting and licensing fees.

- **Business premises costs**

  You can claim business premises costs such as electricity, phone, water, rental or lease. If you run your business at your home or your business is based from home, you can claim the business portion of occupancy expenses and running expenses, like mortgage and electricity.

- **Travel for business**

  Do you or your employees travel for business? You can claim business travel expenses such as bus, plane, Uber or taxi trips. If you have a vehicle for your business, you can claim motor vehicle expenses associated with running and maintaining the vehicle such as petrol, rego and insurance.

- **Salaries and wages**

  If you're an employer, you can claim the costs of employing people such as salaries and wages, and super contributions you make on their behalf.

4 golden rules for claiming work-related deductions

For all your business expenses, keep these four golden rules in mind:

1. You must have spent the money;
2. The expenditure must not have been reimbursed to you either directly or indirectly;
3. The expense must be directly related to earning your income; and
4. You must have some sort of record to prove that the expense was incurred (which can be produced if asked).

Expenses and deductions checklist

- Claim deductions for most costs you incur in running your business, such as staff wages and super, operating expenses and home-based business costs.
- Apply the four golden rules for claiming work-related deductions and business expenses (see above).
- If you or your employees travel for business, claim business travel expenses.

  If you have a vehicle for your business, claim motor vehicle expenses associated with running and maintaining the vehicle such as petrol, rego and insurance.

- If you run your business at your home, or your business is based from home, claim the business portion of some expenses, including mortgage interest and electricity. If you then sell your home, you may have to pay CGT on the business portion and declare it in your tax return.
- Claim a deduction for donations made to an organisation if they are a deductible gift recipient (DGR).
- Keep accurate records of all business transactions to support your claims and make it easier for you.
- Don't claim expenses that are non-deductible, including:
  - penalties and traffic fines
  - private or domestic expenses childcare fees and clothes for your family
  - expenses related to income that is not assessable, such as money you earn from a hobby.

What concessions can small businesses tap into this tax time?

There are a range of tax concessions that your small business might be eligible for. Here are a few you should consider for your 2018 tax return.

$20,000 instant asset write-off

If you bought and installed business assets by 30 June, you may be able to write them off in your 2018 tax return.

Tip!

You need to pool depreciating assets that cost $20,000 or more in a small business asset pool. Your tax adviser will have more information on how to do this.

Pre-paid expenses

You can claim a deduction this year if you have prepaid an expense that ends in the 2019 financial year – e.g. the rent for your business premises or an insurance policy.

Prepaid expenditure incurred by a small business entity is immediately deductible under the 12-month rule if:

- the eligible service period for the expenditure is 12 months or less
- the period ends no later than the last day of the income year following the year in which the expenditure was incurred.

Note!

- The 12-month rule applies to both deductible business expenditure and deductible non-business expenditure incurred by a small business entity that chooses to use this concession.
- If a prepayment does not meet the 12-month rule, you cannot claim an immediate deduction. Small business entities must apportion the deduction over the eligible service period or 10 years, whichever is less.

Simplified trading stock rules

This concession allows you to estimate the value of your trading stock at the end of the financial year to report in your tax return.

Eligible small businesses can use these simplified rules if there is a difference of $5,000 or less between:

- the value of your stock on hand at the start of the income year; and
- a reasonable estimate of the value of your stock on hand at the end of that year.

If you estimate that the difference between your opening and closing trading stock is $5,000 or less, then under the simplified rules, you don't need to do a stocktake. Instead, you can include the same amount for your opening and closing stock in this year's tax return.

Tip!

- If you did not have any trading stock in the previous year, the value of trading stock at the start of the year is zero. This might occur if you have just opened a new business or if this is the first year you have trading stock.

Small business income tax offset

The small business income tax offset (also known as the unincorporated small business tax discount) can reduce the tax you pay by up to $1,000 each year.

You can get an offset of up to $1,000 if you're a sole trader or have a share of net small business income from a partnership or trust.

The offset, which is worked out on the proportion of tax payable on your business income, is:

- 8% for the 2016-17 income year onwards;
- 5% for the 2015-16 income year.

The offset increases to:

- 10% in 2024-25;
- 13% in 2025-26;
- 16% in 2026-27.

Deductions for start-ups

Deduct the full cost of certain start-up costs for your new business, including professional advice in your tax return.

The range of deductible start-up costs includes professional, legal and accounting advice and government fees and charges.

Accelerated depreciation for primary producers

Primary producers can:

- immediately deduct the costs of fencing and water facilities
- deduct the cost of fodder storage assets over three years.

Primary producers who are small businesses can also use the simplified depreciation rules including instant asset write-off.

Note!

- The Government has proposed changes to allow primary producers to immediately deduct costs for fodder storage assets. This change is not yet law.

Superannuation concessions

As a small business, you may be eligible for super concessions. These include:

- **Superannuation clearing house**

  The Small Business Superannuation Clearing House helps you pay super guarantee contributions for all your employees in a single electronic payment. If you have 19 or fewer employees or a turnover under $10 million you can access this service.

- **Contributions of small business CGT concession amounts to your super fund**

  You may be able to contribute amounts from the CGT 15-year asset exemption and retirement exemption to your super fund without affecting your non-concessional contributions limits. The turnover threshold for this concession is $2 million as it relates to CGT concessions (this threshold has not changed).

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How does my business compare to other businesses?

Small business benchmarks are a guide to help you compare your business' performance against similar businesses in the same industry.

The easiest and quickest way to see how your business compares to competitors is by using the business performance check tool.

Tip!

- You can find the business performance check tool by downloading the ATO app from Google Play, the Windows Phone Store or the Apple App Store. The personal information you enter isn't recorded and will only be used for completing the tool.

Outside the benchmark?

Your benchmark might be above or below the range for your business turnover in your industry. There could be a number of reasons why this has happened, including:

- you are only starting up or winding down your business
- higher costs or lower selling prices than your competitors
- incorrect entries on your tax return, for example salary and wages to directors or associates.

Note!

It doesn't necessarily mean you have done anything wrong if your business is significantly outside the key benchmark range for your industry. However, it does indicate something is unusual and may prompt the ATO to contact you for further information.

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What's on the ATO's radar this tax time?

The ATO is paying close attention to a few expenses this year. Find out what is attracting the ATO's attention.

Clothing and laundry claims

The ATO is closely examining claims for work-related clothing and laundry expenses this year.

You can legitimately claim work-related clothing and laundry if you were required to wear either a uniform that is unique and distinct to your employer, protective or occupation specific clothing.

Did you know?

- Last year, around 6 million people claimed work-related clothing and laundry expenses which totalled nearly $1.8 billion. Around a quarter of these clothing and laundry claims were exactly $150, which is the threshold over which taxpayers are required to keep detailed records to support their claims.

Tip!

- The $150 limit is there to reduce the record-keeping burden and is not an automatic entitlement for everyone.
- The ATO's technology and access to data is improving every year – be careful about what you claim, and always be ready to substantiate your claims!

Shares and capital gains

The ATO is also paying close attention to taxpayers who have sold or transferred shares and the amount they are reporting as capital gains. Speak to your tax adviser for more information.

Claims for work-related car expenses

The ATO is concerned about taxpayers making mistakes or deliberately lodging false claims in relation to work-related car expenses this tax time.

This year, the ATO will be particularly focused on people claiming things they're not entitled to. For example, claiming things like home to work travel or other private trips; making claims for trips that they didn't do or claiming expenses that their employer has already paid for or reimbursed.

Did you know?

Last year around 3.5 million people made a work-related car expense claim, and together they totalled about $8.8 billion.

Note!

- The ATO uses analytics to identify unusual claims being made by taxpayers by comparing them to their peers – those who are in similar occupations, earning similar amounts of income.
- The analytics are also used to identify claim patterns. For example, the ATO were able to identify that over 800,000 people claimed exactly 5,000 kilometres under the cents per kilometre method last year.

Unusual behaviours and characteristics

Broadly, the following behaviours and characteristics may attract the ATO's attention:

- tax or economic performance is not comparable to similar businesses
- low transparency of your tax affairs
- large, one-off or unusual transactions, including the transfer or shifting of wealth
- aggressive tax planning
- tax outcomes inconsistent with the intent of the tax law
- choosing not to comply or regularly taking controversial interpretations of the law, without engaging with the ATO
- lifestyle not supported by after-tax income
- accessing business assets for tax-free private use
- poor governance and risk-management systems.

Things you need to know about donating to drought relief

As the drought in Australia continues, many Australians have started donating to charities or relief funds to help those who are most in need of help. Many Australians have also started raising funds or donating through crowdfunding platforms.

Tip!

There are tax implications associated with donating or raising funds. If you are planning to donate, direct your generosity to registered charities or organisations that are deductible gift recipients (DGRs) and are focussed on rural assistance.

Donating to drought relief?

Donations of $2 or more will be tax deductible only where donations are made through an organisation that is a DGR.

To claim a tax deduction for a donation or gift, it must meet four conditions:

1. The gift must be made to a DGR. Check whether your donation was made to an endorsed DGR on the ABN Lookup website.
2. The gift must truly be a gift. A gift is a voluntary transfer of money or property where you receive no material benefit or advantage.
3. The gift must be money or property, which includes financial assets such as shares.
4. The gift must comply with any relevant gift conditions. For some DGRs, the income tax law adds extra conditions affecting types of deductible gifts they can receive.

Note!

You cannot claim a tax deduction for donations made to crowdfunding platforms if they are not a DGR.

What is drought assistance crowdfunding?

Crowdfunding is the practice of using internet platforms, mail order subscriptions, benefit events and other methods to find supporters and raise funds for a project or venture.

Drought assistance crowdfunding is when someone is planning to raise funds through crowdfunding platforms to assist those affected by the current drought.
If you're involved in crowdfunding – regardless of your role – you need to be aware of the tax consequences. These vary depending on the nature of the arrangement, your role in it and your circumstances.

There are usually three parties (or roles) in a crowdfunding arrangement:

1. the initiator of the project or venture or the campaign creator (who may act in a personal capacity or use a company or organisation as the vehicle to progress the crowdfunding project or venture) known as the 'promoter'
2. the organisation providing the crowdfunding website or platform, known as the 'intermediary'
3. individuals or entities that contribute or pledge money, known as ‘contributors'.

Each party may have income tax and GST obligations, depending on their circumstances and the nature of the crowdfunding arrangement.

Are you raising funds through crowdfunding?

If you are planning to raise funds through crowdfunding platforms, you need to be aware of the potential tax implications.

Payments you receive from crowdfunding platforms may be assessable income depending upon how the funds are used. For example:

- where the amounts received are used for emergency relief, such as food and clothing, then these amounts are not assessable;
- where the amounts are spent on deductible expenses, such as purchasing feed for livestock, there should be no net taxable outcome if all the money is spent on deductible expenses, as the income amounts should be offset by the deductions obtained.

This means, for most farmers, there should be no tax payable in relation to money donated to them for their farm expenses. Income tax will likely be payable should the farmer make a net business profit.

Note!

Crowdfunding amounts will only be assessable if they are intended for use in the business rather than for emergency relief purposes, such as food and clothing. Check with your Rees Pritchard tax adviser about the tax implications for your particular circumstances.

Tip!

- It is important to determine whether the money you receive through crowdfunding is income and whether you need to consider GST.
- If it is income, you will need to include it in your tax return and there may be deductions you can claim. Speak to your Rees Pritchard tax adviser who can explain the GST requirements if you are subject to GST on transactions.

Paid any building and construction contractors?

Did you need to lodge a taxable payments annual report this year?

If your main business activity is in the building and construction industry and you paid contractors for building and construction services in the 2017-18 financial year, your report was due by 28 August 2018.

You can still lodge your report:

- online if you have compatible software
- through your tax or BAS agent
- by mailing the ATO the completed form.

By reporting the payments you've made, you're helping to increase fairness within your industry.

Lodge overdue reports!

Do you have any overdue reports from prior years? Lodge them as soon as possible.

If you're no longer in the building and construction industry or you didn't pay contractors for building and construction services in the 2017-18 financial year, submit the online taxable payments annual report – not required to lodge form.

Super guarantee payments and the self-employed

If you're a sole trader or in a partnership, you generally don't have to make superannuation guarantee (SG) payments for yourself. However, you may want to make personal contributions to super as a way of saving for your retirement.

From 1 July 2017, regardless of whether you're self-employed or not, most people will be able to claim a full deduction for contributions they make to their super until they turn 75 years old. Those aged 65 to 74 will still need to meet the work test in order to be eligible to make a contribution and claim a tax deduction. Keep in mind that contributions you make may attract extra tax if they exceed the contributions limit for that year.

Tip!

- You may also be eligible for the super co-contribution payment. This helps eligible low-to-middle income earners save for their retirement. If you're eligible and you make personal super contributions, the government will match your contribution up to certain limits, unless you have claimed your contribution as a tax deduction.

Casual employees may be entitled to super

Employing casual workers provides businesses with an increased level of flexibility. However, it's important to remember that casual employees may be entitled to super.

Here are the basics:

- You may need to pay super guarantee (SG) regardless of whether your employee is full-time, part-time or casual.
- If you pay your employee $450 or more (before tax) in a calendar month, you have to pay SG on top of their wages.
- If your employee is under 18 years old, they must also work for more than 30 hours per week to qualify for SG.

Super guarantee is currently calculated at 9.5% of a casual employee's ordinary time earnings. This includes their wage plus any casual or shift loadings for ordinary hours of work. It also includes commissions and some allowances, but it doesn't include overtime payments.

Tip!

Speak to your Rees Pritchard tax adviser to work out if your casual workers are eligible for super and whether your workers are employees or contractors.

Attention all car owners! You must declare what you share

Do you earn income through car sharing platforms? If you do, it is important to include the income – no matter how little – in your tax return. It's no different to anyone else renting out an asset, like a house or a car park. You must declare the income and you cannot avoid tax by calling it a hobby.

The growing popularity of third party services (e.g. Car Next Door, Carhood or DriveMyCar Rentals) has prompted the ATO's interest.

Note!

- The ATO has sophisticated systems and data to help identify where sharing platforms are being used to generate income.

Deductions that car sharers can claim

The good news is that individuals who rent their vehicle are entitled to claim some deductions.

The expenses claimed must relate directly to the renting, hiring or sharing of your car, and accurate records such as receipts must be maintained to back up all claims.

Car sharers can claim deductions for expenses like:

- platform membership fees;
- availability fees;
- cleaning fees; and
- car running expenses.

However, a deduction can only be claimed for cleaning and running expenses if you are responsible for them under your car sharing agreement. For example, different agreements require either the car borrower or the car owner to bear the costs of refuelling the car.

Do you use your car for private travel?

If you use your car for your own private travel, you will need to exclude all the related costs.

If you own a car jointly, you will need to declare income and claim expenses in proportion to your share of ownership. You must declare the income and claim the deductions in proportion to your ownership interest.

Note!

- You cannot claim for expenses related to a car that you salary sacrificed.

Tip!

- Keep good records to help ensure you declare the right amount of income and have evidence for claims made.
- Your sharing platform should be able to provide you with accurate records of the income and the kilometres travelled for sharing purposes, which would form a good basis for your deductions.

Renting or hiring your car and GST reporting

If you are registered for GST, you must account for it on the extra income you have earned. If you are not registered for GST but your turnover from all of your enterprises is $75,000 or more per year, you need to register for and report GST.

If you report GST, you should also be able to claim credits on the GST included in the price for things you purchase for renting or hiring your car.

New rate for car expenses

The rate for work-related car expenses has increased for the income year starting 1 July 2018. It is now 68 cents per kilometre.

This applies if you have chosen to use the cents per kilometre method for calculating work-related car expenses and will remain in place until the Commissioner decides it should be varied.

If you are paying your employees a car allowance in excess of 68 cents per kilometre, you need to withhold tax on the amount you pay over 68 cents.

Tip!

- Remember, Rees Pritchard tax advisers can help with completing your tax return.

Key tax dates

Date	Obligation
21 Sep 2018	Aug monthly BAS due
22 Oct 2018*	Sep monthly BAS due
29 Oct 2018*	Sep quarter SG due Sep quarterly BAS due Sep quarter PAYG instalment due
31 Oct 2018	2018 income tax return due
21 Nov 2018	Oct monthly BAS due
28 Nov 2018	Sep quarter SG charge statement due
21 Dec 2018	Nov monthly BAS due

*Actual due date falls on a Sunday.