elphinstone stevens pty ltd

the bottom line newsletter Tax Time 2017 - Issue No. 74

Yolla Co-Op Farmer Owned

TAX TIME EDITION

Long term Elphinstone Stevens' client Yolla Co-Op was formed by a handful of farmers in the Yolla area in May 1977 to reduce the cost of farm inputs. From small beginnings, the Co-Op has grown to over 700 farmers state-wide with annual sales approaching $15 million.

The move of the Co-Op from Yolla to the ex-Elders site at 83 Mt Hicks Road, Wynyard in May 2013 was a major turning point in the Co-Op's growth. In March this year the Co-Op opened a second store in Smithton to service its many members in Circular Head.

According to General Manager Peter Moore "the continued growth and success of our Co-Op is due to the passion and commitment to the Co-Op of our members". "Farmer Owned - it's the central difference between our Co-Op and our competitors. It's about Tasmanian farmers wanting to have a say and control over the costs of their rural inputs and not be dictated to by rural retailers focused on investor profit" he added.

On Wednesday 24th of May, the Co-Op will be holding a 40th Anniversary Open Day at their Wynyard store to honour the vision of their founders. The day will be attended by over 50 leading national rural suppliers with over 400 people in attendance.

At 10am on the day, leading agricultural futurist Paul Higgins, will speak with attendees about the future challenges they need to address to succeed in business. Paul has been a keynote conference speaker at many leading national business forums, including the National Farmers Federation and the NAB National Small Business Summit.

All events on the day are free and open to the public. Yolla Co-Op hope to see you there to join in the celebrations and listen to Paul Higgins. Elphinstone Stevens Pty Ltd congratulate YPS on 40 successful years in business.

Changes to the Small Business Company Tax Rate – Effective 1/07/16

On 31st March 2017, the Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016 was passed through the senate. The bill contains amendments to steadily reduce the company tax rate for small business companies. The bill also contains amendments to increase the aggregated annual turnover threshold for the purpose of receiving the lower income tax rate. You must carry on business to access the reduced rates; non-business companies (i.e. investment companies) will continue to be taxed at 30%.

The changes for small business companies are as follows:

• The annual turnover threshold will be increased from $2 million to $10m for the 2016-17 tax year. The threshold will then be increased to $25m in the 2017-18, and then increased for a final time to $50m in the 2018-19 tax year.

• Small business company tax rates will be reduced to 27.5% in the 2016-17 tax year. The tax rate will then be reduced to 27% in the 2024-25 tax year and will continue to be reduced by one percent each year, until it reaches 25% in the 2026-27 tax year.

A summary of these changes can be seen in the table below:

Financial Year	Aggregated Annual Turnover Threshold	Small Business Company Tax Rate	All other Company Tax Rate
2015-2016	$2m	28.5%	30.0%
2016-2017	$10m	27.5%	30.0%
2017-2018	$25m	27.5%	30.0%
2018-2019	$50m	27.5%	30.0%
2019-20 to 2023-24	$50m	27.5%	30.0%
2024-2025	$50m	27.0%	30.0%
2025-2026	$50m	26.0%	30.0%
2026-2027	$50m	25.0%	30.0%

Small Business Entity Concessions – Effective 1/07/16

The Government has announced as part of the 2016-17 budget that the small business entity turnover threshold will be increased from $2 million to $10 million from 1 July 2016. Importantly, all business entities (incorporated or otherwise) that meet the new $10 million aggregated turnover test will be able to access a range of concessions which are currently only available to business entities with a turnover of less than $2 million.

These concessions include:

• An immediate deduction for small business start-up expenses;
• Access to the simplified depreciation rules, including an immediate deduction for asset purchases costing less than $20,000 until the 30 June 2017 (extended to 30/06/18: see 2017 Budget article) plus access to the SBE general pool;
• Access to Simplified trading stock rules giving businesses the option to avoid an end of year stocktake where a reasonable estimation indicates that the stock movement is less than $5,000;
• A simplified method of paying PAYG instalments calculated by the Australian Taxation Office (ATO) which removes the risk of under or over-estimating PAYG instalments and the resulting penalties that may be applied;
• The option to account for Goods and Services Tax (GST) on a cash basis and pay GST instalments as calculated by the ATO;
• Access to the roll-over for restructures of small businesses, allowing small businesses to change their legal structure without triggering any income tax liability when business assets are transferred. (i.e. change from partnership to trust);
• Claiming immediate deductions for certain prepaid business expenses (i.e. insurance)

However please note that these threshold changes will not apply to the small business CGT concessions. To be eligible to access the small business CGT concessions you will still need to satisfy either the $2 million aggregated turnover test (turnover of less than $2 million) or the $6 million net

Unincorporated Small Business Tax Offset – Effective 1/07/16

Year(s)	Offset Rate	Maximum Turnover of the Business	Maximum Offset
2016-17 to 2023-24	8%	$5 million	$1,000
2024-25	10%	$5 million	$1,000
2025-26	13%	$5 million	$1,000
2026-27	16%	$5 million	$1,000

If you are in receipt of income from an unincorporated small business during the 2016 financial year you would have been entitled to the small business 5% tax offset that was introduced by the Government during the 2015 budget. The 5% tax offset (capped at $1,000) was available on the portion of tax payable relating to your business income only.

From 1 July 2016 the unincorporated small business tax offset is to be increased to 8% for individuals in receipt of income from an unincorporated business whose turnover is less than $5 million (previously $2 million). The individual then receives an offset of 8% on the tax payable relating to the business income. Unincorporated business' includes sole traders, partnerships' and trusts whom are trading. The discount will continue to be increased in phases until it reaches 16% in tax year 2026-27 as shown in the above table. The cap of $1,000 is retained, despite the increase in rate.

2017 Budget

Overview

This Budget continues the intent of gradually returning to surplus over the medium term, with the Budget expected to balance in 2021 and remaining in surplus thereafter. But it's a case of relying on regulation, not innovation, to find savings in the Budget.

Small Business

The instant asset write-off of $20,000 is being extended by 12 months to 30 June 2018. Importantly, it should be noted that due to the recent changes legislated from the prior budget, business with a turnover under $10 million will be able to utilise this concession.

The Government will tighten the small business CGT concessions with effect from 1 July 2017 to ensure that the concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business.

Personal Income Tax

There are no changes to personal income tax rates proposed in the Budget, however the Medicare Levy will increase from 2% to 2.5% from 1 July 2019.

Superannuation

No major superannuation changes, but the Government has announced housing affordability measures and tax integrity measures applying to specific superannuation investments.

Voluntary superannuation contributions of up to $15,000 per year, and $30,000 in total, can be contributed by first home buyers from 1 July 2017. The contribution must be within existing concessional and non-concessional caps. These contributions can then be withdrawn, along with associated deemed earnings, for a first home deposit, from 1 July 2018 onwards.

From 1 July 2018, the Government will allow a person aged 65 or over to make a Non-Concessional Contribution (NCC) of up to $300,000 from the proceeds of selling their home. These NCCs will be in addition to those currently permitted under existing rules and caps and they will be exempt from the existing age test, work test and the $1.6 million balance test for making NCCs.

Rental Property Owners

The Government has introduced two new measures to restrict the availability of deductions in respect of residential investment property.

From 1 July 2017, the Government will limit plant and equipment depreciation deductions to outlays actually incurred by investors in residential properties. Basically, if you purchase a rental property with existing chattels, you will be unable to claim a deduction for depreciation of these chattels. These changes will apply on a prospective basis, with existing investments grandfathered.

From 1 July 2017, the Government will disallow deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property

GST on Property Transactions

From 1 July 2018, purchasers of newly constructed residential properties or new subdivisions will be required to remit the GST directly to the ATO as part of settlement.

Please do not hesitate to contact our office if you would like to discuss how any of the announced changes may affect your business or personal tax situation.

Also, it should be noted that these changes will require passing in legislation before they become law.

Tax Planning

Has your business had a profitable year? It may be wise to contact us regarding tax planning opportunities prior to June 30. Broadly, tax planning is the process of organising the affairs of a taxpayer or a group of taxpayers so that, as far as legally or commercially possible, the tax liability of the taxpayer or group of taxpayers is minimised. The ways in which your particular business can minimise its income tax obligations will largely depend upon whether your business is eligible for the Small Business Tax Concessions (turnover less than $10 million excluding GST).

Listed below are some suggestions on how to minimise your income tax. We strongly recommend that before you implement any of these strategies, that you contact our office first, to discuss your particular situation.

To defer income, businesses can postpone customer billing until after 30 June. Businesses not claiming the small business concessions may also defer asset (plant) sales until after 30 June.

If your business is eligible for the Small Business Tax Concessions you may also want to consider:

- Purchasing plant and equipment costing less than $20,000 as the total can be claimed instantly (this is in effect until 30/06/2017, may be extended until 30/06/2018 if 2017 budget changes legislated)

- Expenses that are likely to be incurred over coming months can be prepaid (up to 12 months). Review your expenditure and where possible bring forward to the current financial year and gain the tax advantage.

- If you are leasing equipment up to 12 months of lease instalments can be paid prior to 30 June and claimed as a deduction.

- Businesses can also get a 15% tax deduction for new plant costing more than $20,000 purchased prior to 30 June.

Primary Producers can make deposits with most major banks into a designated Farm Management Deposit prior to 30 June and the deposit will be treated as a tax deduction. The funds must be invested for at least 12 months and the minimum deposit is $1,000, with the maximum balance of the FMD $800,000. Deductibility is also limited to taxpayers with income from non-primary production of less than $100,000. The withdrawals are treated as assessable income in the year the withdrawal is made.

If you have the funds and Cashflow to support it, look at bringing forward any items that require major repairs or services prior to 30 June. Please be careful to ensure that the repair is not classified as a capital improvement though.

Deductions can also be claimed for contributions to Superannuation for self employed persons made prior to June 30. Although, please be aware the contributions will be taxed at 15% within the fund. There are contribution caps and other rules that apply, so like any of our suggestions, it is best to contact our office first to discuss before putting any plan in place.

In general the concessional contributions cap for the 2016/17 year has remained at $30,000. For those aged 49 or over on 30 June 2016, their contributions cap is $35,000. From 1 July 2017 the concessional contributions cap for everyone will be reduced to $25,000.

It is also important to note that bringing forward tax deductions or deferring income to a later year will of course affect the next year. This may have an adverse effect if you defer too much to the following year. To determine the most tax effective strategy, it is best that you speak to us and we can assist in determining your estimated 2017 taxable income and hence estimated tax.

Other Tax Points to remember for 2016/17 tax:

- Primary producers, regardless of being a SBE or not are entitled to immediate deductions for expenditure relating to water conservation (ie. dams, tanks, irrigation channels pumps etc.)

- Primary producers are also entitled to deduct fodder storage assets over a three year period (fodder storage assets include silos and tanks used to store grain)

- New fencing costs can also be immediately deducted by primary producers.

Please note: The Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016 (see articles: changes in the company tax rate, small business concession & unincorporated small business tax offset) has been passed by both Houses of Parliament. As of 11/05/17, the Bill is still awaiting Royal Assent. However, the Treasurer has obtained an assurance from the ATO that it will administer the amended Bill on the basis that there is bipartisan support for the measures.