elphinstone stevens pty ltd

the bottom line newsletter

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Residential Rental Properties

Buying a rental property means increased record keeping, but what records do you need to keep and what are you entitled to claim come tax time?

Firstly, a rental property can make a profit or a loss. If it makes a profit you are taxed only on your share of the profit (ie. a house held jointly, 50% of any profit). If it makes a loss (ie. expenses exceeding income) this is referred to as negative gearing and this loss can be offset against any other taxable income you may have.

It is important to keep records of rent received during the financial year along with all expenditure incurred on the property. Typical deductible expenses each year include council and water rates, land tax, insurance and management fees if managed by an agent. Other deductions also include interest and repairs, which we will look closer at here.

Interest on loans is deductible to the extent that the loan was used to purchase/renovate the property. For example, if you consolidate your home loan and your rental property loan this does not mean that the total interest is now deductible; only the portion relating to the rental property is deductible.

With regards to repairs, these are again deductible in full if the repair is only to fix something to its original state. Repairs do not include total reconstruction or major improvements. Examples of repairs are painting, replacing broken glass, mending leaks etc. Please note, initial repairs conducted to a home prior to being rented out are not deductible as repairs.

If, you have conducted improvements to your rental property, you are generally entitled to a deduction on this expenditure over 40 years. There are also items which constitute plant and equipment; anything that can be sold separate. Plant and equipment items are depreciated over the items effective life.

In the 2017 Budget, the Government announced from 1 July 2017 it would limit the depreciation deduction on plant and equipment to outlays actually incurred by investors in residential properties. Therefore if you purchase a rental property with existing chattels you will not be entitled to depreciation deductions on these chattels.

In the same Budget, the Government announced it will disallow deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property.

All information provided within this newsletter is general advice only and is not to be relied upon. For specific advice to your situation please make contact with our office 6431 3933.

Hiring Staff - Checklist

Hiring employees is common practice in most small businesses. As an employer, there are a number of obligations which you are required to meet. Whether you're new to employing or you currently have employees, below is a general checklist to follow when taking on a new employee.

General Requirements

1. Determine if they are Australian residents or hold a visa allowing them to work in Australia.
2. Set up a record keeping system for employment documents

ATO Registration Requirements

3. Register for Pay As You Go Withholding (PAYG Withholding) so taxes can be withheld from your employees' wages.
4. If you intend to employ workers who hold working holiday visas register to be an employer of working holiday makers.

Employment Documents

5. Provide your employee a Tax File Number Declaration form. This form must be provided to the ATO.
6. Provide your employee a Superannuation Standard Choice Form with details of your nominated default superannuation fund completed. This allows the employee to nominate their preferred superannuation fund or accept your default fund.
7. Provide your employee with the Fair Work Information Statement
8. Provide any other policy documents which may be applicable to your organisation (harassment policy, social media policy etc.)

Payment & Reporting Requirements

9. Ensure you are able to electronically report and pay your superannuation contributions to comply with SuperStream.
10. Ensure the correct tax is withheld from the wage payments as per the ATO tax tables.
11. Provide your employee with a payslip each time you pay their wages.
12. Pay superannuation contributions by the 28th of the month following the end of the quarter.
13. Report gross wages and tax withheld to the ATO on your Business Activity Statements.
14. Provide Annual PAYG Payment Summaries to employees by 14th July and lodge these with the ATO by 14th August

This is a general list only and may not be applicable to your business circumstances. Please contact our office to discuss should you need any assistance.

Foreign Resident Capital Gains Withholding Tax on Property

Selling or buying property for more than $750,000? You may have further requirements under the foreign resident capital gains withholding tax regime.

If you are selling taxable Australian property for more than $750,000, you are now required to apply for a clearance certificate to prove that you are an Australian Resident. If this clearance certificate is not obtained by the time settlement occurs, the purchaser is required to withhold 12.5% tax on your sale proceeds and remit these to the ATO as it is assumed you are a foreign resident.

Taxable Australian property includes but is not limited to any vacant land, buildings, residential or commercial property. Therefore, a common example would be the sale of farm land.

If you are purchasing a property from a foreign resident then you will be required to withhold the 12.5% tax on the purchase price and remit to the ATO. This will occur through your conveyancer at time of settlement.

The Clearance Certificate can be completed online, which we are able to assist with if required. Please be aware of your obligations as a seller otherwise you may find you are missing 12.5% of the sale price.

Please note, if you signed a contract prior to 1st July 2017 the previous rate of 10% and a $2 million threshold applies.

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Fuel Tax Credits

Fuel tax credits provide businesses with a credit for the fuel tax (excise or customs duty) that's included in the price of fuel used in machinery, plant, equipment, heavy vehicles and light vehicles travelling off public roads or on private roads that is used in business. The amount depends on when you acquire the fuel, what fuel you use and the activity you use it in.

Some fuels and activities are not eligible. For example, fuel you use in light vehicles of 4.5 tonnes gross vehicle mass (GVM) or less, travelling on public roads. This is the case even if the vehicle is being used 100% for business purposes.

Current rates from 1 August 17 are $0.403/litre for liquid fuels used in off-road activities and $0.145/litre for liquid fuels used in heavy vehicles on road with a GVM of more than 4.5 tonne that meet the environmental criteria. These rates change every six months and should be checked before making a claim on your BAS.

Most businesses that use fuel in their business are aware they are eligible to claim. However, there are some common misconceptions and mistakes. You could also be possibly under claiming and missing out on significant credits. These mistakes include:

- Missing the higher rate for heavy vehicles that are travelling off-road or heavy vehicles that also have auxiliary equipment (e.g. trucks with tipping equipment for loading or unloading; commercial buses that run air conditioning for passenger comfort etc.). Thus, you may be eligible to apportion the claim between the off-road and on road rebate

- Not claiming the fuel at the correct rate

- Not claiming petrol that is used in the business at all

- Claiming all fuel purchased for the business including that in light vehicles travelling on public roads

- Not using the correct accounting method to calculate the claim. I.e. If you account for GST on a

1. cash basis, claim your fuel tax credits in the same business activity statement period you pay for your fuel

2. non-cash basis, claim your fuel tax credits in the business activity statement period you receive your invoice for your fuel.

If you claim less than $10,000 in fuel tax credits each year, you can choose to use the simplified approach to keep records and calculate your claim. This means you can use the rate that applies at the end of the BAS period for the whole of that BAS period and work out your litres based on the cost of the fuel you purchased.

As always, if you would like to discuss your specific situation or would like us to review your calculations for fuel tax credits, please do not hesitate to call.

Simpler BAS

From the 1st July 2017, the Australian Taxation Office has introduced a simplified GST reporting system for small businesses with a GST turnover of less than $10 million. Small businesses that are eligible will automatically transfer to the new 'Simpler BAS' system which will reduce the amount of GST information that is required to be reported on the Business Activity Statement (BAS).

If you are a small business you will only be required to report the following information on your next BAS:

- G1 Total sales
- 1A GST on sales
- 1B GST on purchases

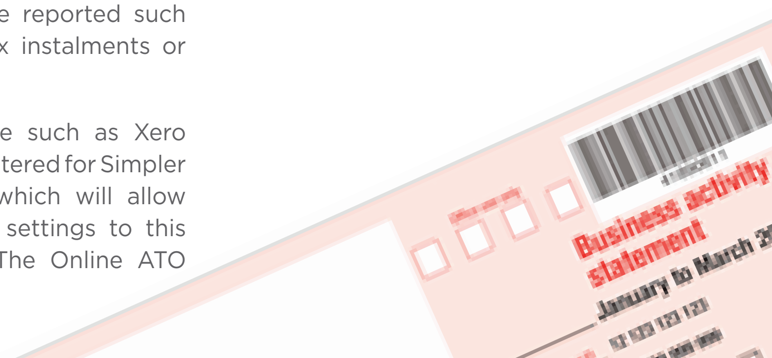
This therefore means the following GST information is now no longer required:

- G2 Export sales
- G3 GST-free sales
- G10 Capital purchases
- G11 Non-capital purchases

Please note: These changes do not affect the GST cycle you report in (monthly, quarterly, or annual) or how other taxes are reported such as PAYG income tax instalments or PAYG tax withheld.

Accounting software such as Xero and MYOB have registered for Simpler BAS bookkeeping which will allow you to change the settings to this simpler approach. The Online ATO Business Portal has also changed its process and procedures to help with this transition. If eligible you will only be prompted to enter the required information. For those eligible clients that lodge via paper, you are also only required to complete; G1 Total sales, 1A GST on sales and 1B GST on purchases.

Please contact our office if you require any assistance in lodging your Simpler BAS.



CLIENT PROFILE - KILLYNAUGHT SPA COTTAGES

After an 8 month hiatus, followed by renovations & a fresh coat of paint throughout, the Killynaught Spa Cottages officially opened under new ownership in August.

The property comprises of five federation style 1 & 2 bedroom fully self-contained cottages run by the proprietors as well as the acclaimed 120 seat restaurant and function centre now called Illume, operated by Nick & Suzie from Harvest & Cater.

The 2 operators are working closely together and have already started taking bookings for weddings, birthdays and Christmas parties with restaurant guests having the option of booking in to stay a night or longer.

Given the huge increase in tourism in recent years & being on the Bass Highway with uninterrupted rural & coastal views, the cottages & restaurant are well known Tasmania wide and the new owners are working hard to put Killynaught on the national & global map!

Check them out at www.killynaught.com.au or find them on Facebook under Killynaught Spa Cottages. We congratulate our clients on the purchase of the Killynaught Spa Cottages. It is great to see it re open and shows positive signs for NW Tourism and the NW Coast economy generally

SMSFs and Tax-Exemption on Pension Assets

In some circumstances with our Self-managed super fund (SMSF) clients we assist in obtaining an actuarial certificate in order to determine the exempt current pension income (ECPI) for the fund. The actuarial certificate is basically required to determine the taxable and tax free component of the fund. There are also some instances where defined benefit pensions exist that actuarial certificates are required to determine the fund has sufficient assets to continue paying the defined benefit pension for its lifetime.

The ATO has recently confirmed its' position on the requirement to obtain an actuarial certificate. Where a fund is wholly in pension phase for all or part of any income year it is considered that the fund's assets are segregated current pension assets. In this instance there is no requirement for an actuarial certificate to support the SMSF trustee's calculation for ECPI for the respective period.

If at any time during the income year an SMSF is not wholly in pension phase, i.e. when some members are in accumulation phase and others in pension phase (without segregated assets), the SMSF trustee will be required to use the proportionate method to determine the fund ECPI for that period. The trustee will be required to obtain an actuarial certificate if they wish to claim that a portion of the fund is ECPI, therefore the income is tax free during the year.

Generally, this has been our approach to ECPI for a number of years. If you wish to discuss any issues relating to this or SMSF's please speak with our resident guru, Alysha.

SMSF ADVISERS NETWORK

Elphinstone Stevens Pty Ltd are Corporate Authorised Representatives (No.124 5151) of SMSF Advisers Network Pty Ltd AFSL 430062. ABN 64 155 907 681 | www.smsfadvisersnetwork.com.au

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