elphinstone stevens pty ltd

the bottom line newsletter

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2018-19 Federal Budget

The 2018 budget was probably typical of a pre-election budget. There are tax cuts along with some big spending in infrastructure. The main highlights that we believe could affect our clients the most are listed below under the following headings:

Individuals

• A seven-year Personal Income Tax Plan will be implemented in three steps, to introduce a low and middle income tax offset, to provide relief from bracket creep and to remove the 37 per cent personal income tax bracket.

• The 2017-18 Federal Budget measure to increase the Medicare levy from 2 per cent to 2.5 per cent of taxable income from 1 July 2019 will not proceed.

• The $20,000 instant asset write-off will be extended for small businesses by another year to 30 June 2019.

• Deductions for expenses associated with holding vacant land not genuinely used to earn assessable income will be denied.

• Payments to employees and contractors are no longer deductible where any amounts that are required to be withheld are not paid, from 1 July 2019.

• The concessional tax rates for the income of minors from testamentary trusts will not be available for trust assets unrelated to the deceased estate.

Superannuation

• The annual audit requirement for self-managed superannuation funds will be changed to a three-yearly requirement for funds with a history of good record keeping and compliance.

• The maximum number of allowable members in SMSFs and small APRA funds will be increased to six from 1 July 2019.

• Individuals will be required to confirm in their income tax returns that they have complied with "notice of intent" requirements in relation to their personal superannuation contributions, effective from 1 July 2018.

• An exemption from the work test for voluntary contributions to superannuation will be introduced from 1 July 2019 for people aged 65-74 with superannuation balances below $300,000, in the first year that they do not meet the work test requirements.

Black economy measures

• The taxable payments reporting system for payments to contractors will be expanded to include security services, road freight transport and computer system design industries, effective from 1 July 2019.

• Businesses can no longer receive cash payments above $10,000 for goods and services, from 1 July 2019.

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.

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Please Remember

By necessity the contents of this newsletter are summary only. Clients should contact us on 6431 3933 to discuss matters prior to acting.

Changes to Trading Names

The Australian Business Registry has recently announced some changes to the information available on the ABN Lookup website, in particular trading names.

Currently an ABN search on the ABN Lookup website will show, among other details, both the unregistered trading name and the business name of the entity.

An unregistered trading name is simply a name you have advised the ATO you are trading under. A business name or registered trading name is a name that has been registered with ASIC. Unless you trade under your own name (or entity name), business names must be registered with ASIC.

From November 2018 all unregistered trading names will be removed from the ABN Lookup. This means if you operate under an unregistered trading name you must decide if you wish to register it as a business name with ASIC.

If you wish to register a business name you can do so by visiting the ASIC website. Please note, you can't apply for a business name that is identical to one that is already registered. You can also check the availability of business names on the ASIC website.

The fees for registering a business name are:

• $35 for one year

• $82 for three years

If you have any queries in relation to your business' business or trading name please contact our office or ASIC on 1300 300 630.

Event-Based Reporting for SMSF's

Due to the new transfer balance cap measures ($1.6m cap) and event-based reporting framework that has been put in place, Self-managed super funds (SMSFs) now have new reporting obligations.

From 1 July 2018, all SMSFs must report events affecting their members' transfer balances. Depending on the total superannuation balance of the SMSF's members will determine when you must report. Therefore:

• Where all members of the SMSF have a total superannuation balance of less than $1 million (individually), the SMSF can report this information at the same time as when its annual return is due. We will assist with this process whilst completing your 2019 Financial Statements and Tax Returns.

• If an SMSF has ANY member with a total superannuation balance of $1 million or more events affecting members' transfer balances must be reported within 28 days after the end of the quarter in which the event occurs. As trustees you will need to contact us and advise any change to your member's transfer balance in order for us to report correctly for you.

SMSF's must report the following events that affect a member's transfer balance:

• Income streams (pensions) a member was receiving on 30 June 2017 that

- Continued to be paid to them on or after 1 July 2017, and
- Are in retirement phase.

• New Retirement Phase Income Streams (i.e. starting a new pension)

• Compliance with a commutation authority issued by the Commissioner

• Personal injury (structured settlement) contributions

• Commutations (ceasing, lump sum withdrawal and re-commencement) of retirement phase income streams.

Prior to 1 July 2018 all SMSFs with members in retirement/pension phase will be required to lodge a transfer balance account report (TBAR). We will arrange this for all affected SMSFs.

In essence if a member starts or stops a pension at any point during the income year please contact our office so we can ensure you have correctly reported to the ATO. This is a new change so please ensure if you have any questions you contact our office for assistance.

Client Profile - Michael Palmer & Eliza Anderson

As compiled by Cecily Palmer. We congratulate Michael, Eliza, Rhys & Cecily on their achievement of Tas Dairy Business of the Year.

Michael was born in Catani in Victoria and from a very early age showed interest in farming. The family moved to Tasmania in 1973 and ten years later bought a dairy farm at Sisters Creek.

In 1985 Michael took on an apprenticeship and 5 years later started on a 12.5% share of the dairy business. During these early years he worked mainly with his mother as they established the farm. The family bought a further 37 hectares in 1993 which Michael was a 33% share in. In the same year he bought 25 cows from his parents and in the following year he purchased a further 25.

1996 saw Michael purchase the house in which he lived. In the same year Michaels parents leased the neighbour's property which included 150 head of cattle. Michael at this stage owned 110 head of cattle and it was in this year that the rotary dairy was built to manage the increase in stock numbers.

By 1998 Michael had increased the cattle he owned to 150 head and he borrowed money to increase his numbers, purchase machinery and become 50/50 sharefarmer. He also took over the lease of the next doors cattle. Irrigation and cattle numbers continued to increase from 2000 where they produced 224,723 kg milk solids. This has more than doubled to 537,122 kg milk solids last year.

Michael and his partner Eliza purchased the Rocky Cape property about seven years ago and after two years converted it into dairy. In recent years they have purchased 267 acres which borders the family farm to the east and with his mother and father purchased a further 350 acres to the north also bordering the farm.

One of his key measurement of success has been his financial management and planning. His mother (Cecily) has maintained the accounting records to the point that he can look at the books at any stage and know where he is at. He cannot stress enough the importance of good accounting. Likewise, budgeting makes sure they keep on top of this.

Michael believes that important strategies are fully feeding the cows and a strong farm team. At present the Farm team consists of 3 full-time, 2 casuals and a calf rarer in addition to Michael. Michael believes his ability to get where he is today is dependent on his farm team.

Michael and Eliza's plans are to continue milking 1000 cows on the home farm and 300 on the Rocky Cape Run property where Michael's son Jordan share farms. The long-term outlook is to continue and consolidate with a heavy commitment on succession planning.

Is your business a hobby?

It is important to understand the difference between a business and a hobby. There is no hard and fast rule in determining if your activity is a business or hobby. It is dependent on the individual circumstances. There are however some factors that can help determine if your business is a hobby. It is likely that you're not in business if your activities are:

- Irregular
- Not intending to make a profit
- Small in size and scale compared to other business in industry
- Not carried out in an organised manner
- Conducted in your spare time
- Mostly for your own satisfaction

If your activities are considered a hobby, you are not entitled to an ABN or GST registration. Unlike a hobby, a business has certain reporting requirements which must be adhered to. If you unsure if your activity is a hobby please contact our office.

Tax Estimate & Planning

Want to know an estimate of how much tax you will have to pay for the 2018 Financial Year? If your business has had a particularly profitable year, it may be a good idea to contact us regarding your tax planning opportunities prior to June 30.

You are able to legally minimise the amount of tax you have to pay for the current income year. One key factor to consider is whether your business is considered a small business entity (turnover less than $10 million) and hence eligible for certain small business concessions.

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

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

All businesses should also review their debtors and write off any bad debts before 30th June 2018.

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 30/06/2018, may be extended until 30/06/2019 if 2018 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.

If you are a Primary Producer, you may also:

• An individual may use Farm Management Deposits (FMDs) – a particular bank account where you deposit minimum of $1,000. The maximum account balance is $800,000. You are able to claim a deduction for the deposit, provided you meet other eligibility criteria (ie. Non-Primary Production Income less than $100,000 is one of these). The funds must be invested for at least 12 months. The withdrawal will then be treated as assessable income in the year withdrawn.

• Build/Buy water conservation assets (ie. dams, tanks, irrigation channels pumps etc.) – An immediate deduction is available.

• Construct fodder storage assets. Deduction available over a three year period (include silos and tanks used to store grain and hay barns)

• Renew fencing. Fencing costs can also be immediately deducted.

If cash flow allows, anyone in business may wish to bring forward repairs or major services that need doing. However, please understand that certain things may in fact be capital improvements, and would therefore not allow an immediate expense deduction.

The biggest change for this financial year relates to the ability for anyone (ie. business or employed persons) to claim a deduction for personal superannuation contributions. Please be aware, that any contributions deducted will be taxed at 15% within the fund and the maximum concessional contribution is generally $25,000. There are other rules surrounding this also.

Overall, it is 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 2018 taxable income and hence estimated tax.