

# Practice Update

July 2017

## Removal of the Temporary Budget Repair Levy from the 2017/18 income year

The 2% Temporary Budget Repair Levy (or 'TBRL'), which has applied to individuals with a taxable income exceeding \$180,000 since 1 July 2014, is repealed with effect from 1 July 2017.

Up until 30 June 2017, including the TBRL and the Medicare Levy, individuals earning more than \$180,000 faced a marginal tax rate of 49%.

With the benefit of the removal of the 2% TBRL, from 1 July 2017, individuals with a taxable income exceeding \$180,000 face a marginal tax rate of 47% (including the Medicare Levy).

*Editor: Don't forget to add another 1.5% for the Medicare Levy Surcharge for certain individuals that don't have Private Health Insurance.*

## Extension of the \$20,000 SBE Immediate Deduction Threshold

In the 2017/18 Federal Budget handed down on 9 May 2017, the Federal Government announced that it intended to extend the ability of Small Business Entity (or 'SBE') taxpayers to claim an outright deduction for depreciating assets costing less than \$20,000 until 30 June 2018. This Budget Night announcement has now been passed into law.

Prior to the relevant legislation being passed into law, the outright deduction threshold for SBEs in relation to depreciating assets was scheduled to revert back to \$1,000 as of 1 July 2017. Now that this change has become law, the threshold is scheduled to revert back to \$1,000 as of 1 July 2018.

To qualify for an immediate deduction for depreciating assets purchased by an SBE taxpayer costing less than \$20,000, the asset needs to be first used or installed ready for use on or before 30 June 2018.

*Editor: The 'aggregated turnover' threshold to satisfy the requirements to be an SBE taxpayer has increased from \$2 million to \$10 million, as of 1 July 2016. As a result, more business taxpayers than ever before will be eligible for the \$20,000 immediate deduction for depreciating assets.*

*Please contact our office if you need any assistance in determining if your business is an SBE, whether an asset purchase you are considering will qualify as a "depreciating asset" and/or what constitutes being "used or installed ready for use".*

## Simpler BAS is coming soon

The ATO is reducing the amount of information needed to be included in the business activity statement (or 'BAS') to simplify GST reporting.

From 1 July 2017, Simpler BAS will be the default GST reporting method for small businesses with a GST turnover of less than \$10 million.

In relation to GST, small businesses will only need to report:

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

This will not change a business' reporting cycle, record keeping requirements, or the way a business reports other taxes on its BAS.

Simpler BAS is intended to make it easier for businesses to lodge their BAS. It should also reduce the time spent on form-filling and making changes that don't impact the final GST amount.

The ATO will automatically transition eligible small business' GST reporting methods to Simpler BAS from 1 July 2017.

Small businesses can choose whether to change their GST accounting software settings to reduce the number of GST tax classification codes.

*Editor: Call our office if you need help with the transition to Simpler BAS or to decide whether your business will use reduced or detailed GST tax code settings in its GST accounting software.*

### **Changes to the foreign resident withholding regime for sales of Australian real estate**

Since 1 July 2016, where a foreign resident has disposed of real estate located in Australia, the purchaser has had to withhold 10% of the purchase price upon settlement and remit this amount to the ATO, where the market value of the property was \$2,000,000 or greater.

As a result of another 2017/18 Budget Night announcement becoming law, in relation to acquisitions of real estate that occur on or after 1 July 2017, the withholding rate has increased to 12.5% and the market value of the real estate, below which there is no need to withhold, has been reduced to \$750,000.

*Editor: Unfortunately, even if a sale of real estate with a market value of \$750,000 was to take place between two siblings on or after 1 July 2017 (both of whom have been Australian residents for 50 plus years), withholding must occur **unless** the vendor obtains a 'clearance certificate' from the ATO – despite the two siblings clearly knowing the residency status of each other!*

*These changes highlight the need to obtain clearance certificates where the vendor is an Australian resident and the real estate is worth \$750,000 or more - not a high exemption threshold given the sky-rocketing values of Australian real estate! If you are buying or selling real estate worth \$750,000 or more (including a residential property, i.e., home) please call our office to see if a clearance certificate is needed.*

### **Change to deductions for personal super contributions**

Up until 30 June 2017, an individual (mainly those who are self-employed) could claim a deduction for personal super contributions where they meet certain conditions.

One of these conditions is that less than 10% of their income is from salary and wages. This was known as the "10% test".

From 1 July 2017, the 10% test has been removed. This means most people under 75 years old will be able to claim a tax deduction for personal super contributions (including those aged 65 to 74 who meet the work test).

*Editor: Call our office if you need assistance in relation to the application of the work test for a client that is aged 65 to 74.*

#### **Eligibility rules**

An individual can claim a deduction for personal super contributions made on or after 1 July 2017 if:

- A contribution is made to a complying super fund or a retirement savings account that is not a Commonwealth public sector superannuation scheme in which an individual has a defined benefit interest or a Constitutionally Protected Fund;
- The age restrictions are met;
- The fund member notifies their fund in writing of the amount they intend to claim as a deduction; and
- The fund acknowledges the notice of intent to claim a deduction in writing.

#### **Concessional contributions cap**

Broadly speaking, contributions to super that are deductible to an employer or an individual, count towards an individual's 'concessional contributions cap'.

The contributions claimed by an individual as a deduction will count towards their concessional contributions cap, which for the year commencing 1 July 2017 is \$25,000, regardless of age. If an individual's cap is exceeded, they will have to pay extra tax.

*Editor: Call our office to discuss the eligibility criteria and tax consequences of claiming a tax deduction for a personal contribution to super for the year commencing 1 July 2017.*

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.