COLVILLE WILLIAMS & CO. PTY LTD

TAX NEWS

June 2018

Colville Williams & Co Pty Ltd ACN 007 250 231

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Ph 9432 0777

Appointment Times

The following times have been allocated for individual tax return preparation:

Fred	Monday	3 pm - 6 pm
Greg	Monday	1 pm - 5 pm
Paul	Tuesday Thursday	8 am - 11am 3 pm - 6 pm
Adrian	Tuesday	3 pm - 6 pm
Dianne	Thursday	8 am - 11 am
Weechan	Wednesday	2 pm - 5 pm

Merilyn, **Catherine** and **Naomi** are available to make appointments or assist in any way.

KINDLY NOTE IT IS NOW MANDATORY TO PROVIDE YOUR BANK ACCOUNT DETAILS ON YOUR TAX RETURNS AS THE AUSTRALIAN TAX OFFICE WILL ONLY CREDIT REFUNDS DIRECTLY INTO A BANK ACCOUNT.

Please do not make an appointment until you have your PAYG Payment Summary and all relevant information. Cancelling appointments in the busy period is unfair to others.

We request that you bring along your bank account details and email address to improve efficiency and speed up your refunds.

Please direct your email enquiries to our mailbox address: **mail@colville.com.au**

OFFICE HOURS

Our normal office hours are 8:30am to 5:00pm Monday to Friday. The rear entrance may be closed at 6 pm on some days and entry after this time is via the front door. A buzzer is located next to the door should the door be locked.

Our fees for tax return preparation remain unchanged from last year.

CAR PARKING

The local council have recently altered permitted parking times in front of the shops.

We encourage you to take note of the new signs and park accordingly. Anyone intending to park for more than half an hour should park in the rear car park. We are advised that parking officers will have a greater presence.

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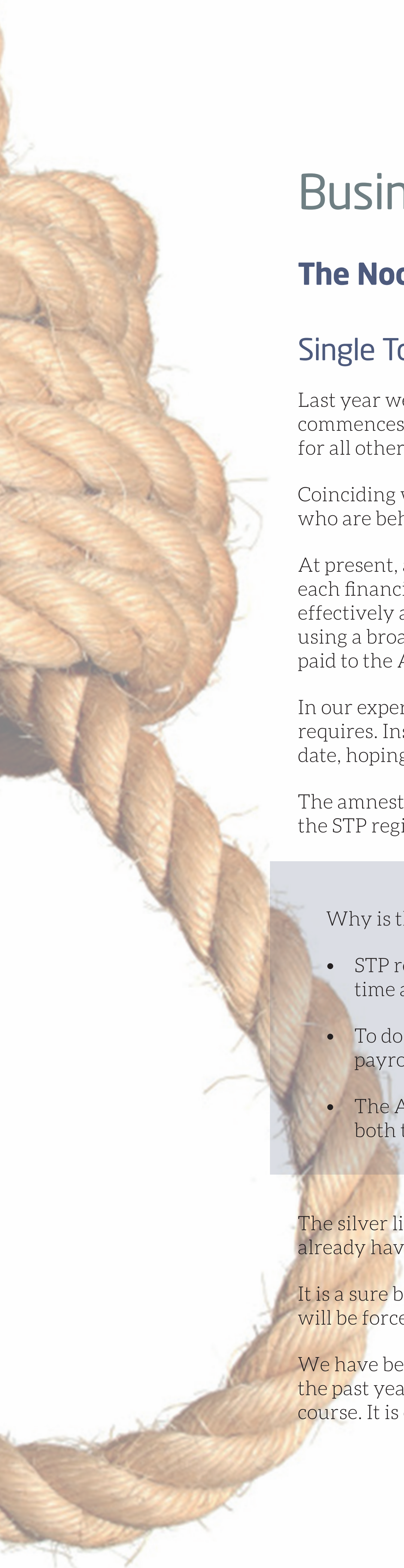

Business News

The Noose Tightens...

Single Touch Payroll and Super Guarantee Amnesty

Last year we reported on the new Single Touch Payroll ('STP'). This new regime commences on 1 July 2018 for businesses with 20 or more employees, and 1 July 2019 for all other businesses.

Coinciding with this initiative the Government has announced an amnesty for businesses who are behind in their Super Guarantee obligations ('SGC').

At present, all business must pay their SGC liability within 28 days following the end of each financial quarter. If late, businesses are required to 'self-assess', and lodge what is effectively a 'late' SGC form. On the late form the superannuation payable is calculated using a broader base, and includes interest and penalties. The amount calculated must be paid to the ATO, who in turn forward it to the employees' super fund.

In our experience, businesses rarely put up their hands to self-assess, as the legislation requires. Instead, they usually just pay the SGC to the employees' super fund after the due date, hoping the employees don't complain to the ATO.

The amnesty is squarely aimed at these businesses to give them a chance to catch up before the STP regime commences.

Why is this important? To recap,

- STP requires the employer to report payments electronically to the ATO each time an employee is paid.
- To do this effectively requires either retail software such as MYOB or specialist payroll software.
- The ATO will therefore have real-time records of wages paid so they can track both the employer's PAYGW liabilities and their SGC liabilities.

The silver lining is that annual PAYGW Summaries will be scrapped (as the ATO will already have the information).

It is a sure bet that STP implementation will be followed by ATO audit activity. Employers will be forced into compliance, not only with the reporting but also on-time payments.

We have been working through the various software options selectively with clients over the past year. Clients affected by the deferred introduction date will be contacted in due course. It is our aim that everyone is ready for the onset of STP well before the start date.

Having the right payroll software package is now essential. We will assist by reviewing whether your software package will continue to meet your accounting and STP reporting needs.

It is proving quite a challenge to ensure that 'retail' packages (such as MYOB, Xero, Quick Books and Reckon) work as cost effectively as our internal general ledger software (e.g.: BankLink). It is likely that cost blowouts may occur and will catch a large number by surprise.

Effectively the Government is using the STP regime as the stalking horse to force the majority of small businesses to update to 'retail' software. This will (ultimately) enable the ATO to use 'big data' to monitor the income tax and GST compliance status of these businesses in real time.

Reportable Payments System (RPS) Extended

This scheme requires businesses to report annually to the ATO the gross values, GST and, if applicable, PAYG withholding amounts, paid to relevant subcontractors. It is part of the ATO's compliance regime to catch out unregistered contractors and those that don't disclose their income.

Currently the RPS applies to the Building and Construction and Cleaning industries. From 1 July 2018, the scheme will be extended to cover payments made by businesses in the Road Freight, Security and Investigation Services, and Computer System Design and related services industries.

The measure adds to our annual compliance work load to ensure our clients are meeting these reporting requirements.

Using the right software, and using it correctly, can greatly assist in meeting the additional requirements.

No Tax Deductions for Non-Compliant PAYG and Contractor Payments

The Government have announced that businesses will be unable to claim a tax deduction for payments to employees if they have (incorrectly) not withheld any PAYGW from these payments. Similarly, deductions will be denied if a business makes payment to a contractor where no ABN has been provided and PAYGW should have been withheld.

It is often assumed that when engaging someone to work for your business, the mere fact that they hold an ABN is enough to make them a contractor. This is simply not the case. There are a range of factors which look through any arrangements put in place, to determine whether the person is in fact an employee.

These new rules mean that making the incorrect determination of 'employee vs contractor' has serious consequences. It might be a good time to review any arrangements you have in place.

Cash Payments Limit of $10,000

The Government has announced that it will introduce a limit of $10,000 for cash payments made to businesses for goods and services. The measure, to apply from 1 July 2019, will require transactions over this threshold to be made by either cheque or EFT.

At present, if a business makes deposits of cash over $10,000 they are reported by the bank to AUSTRAC, the body tasked with the prevention of money laundering.

Clients whose businesses legitimately involve significant cash receipts (e.g. Café's) may receive unwelcome ATO audit attention if their cash deposits exceed this amount.

The measure is a recommendation of the Government's Black Economy Taskforce.

Director Penalty Regime to be extended to GST

Director Penalty Notices are sometimes issued by the ATO to company directors where the company has not paid its debts. Once served on a director, the company has limited time to either pay the debt, enter into a payment arrangement or put the company into liquidation. Failure to take any of these measures will result in the director(s) becoming personally liable for any outstanding PAYGW and SGC obligations.

The Government has flagged its intention to extend this regime to outstanding GST debts as well.

The measures are part of the Government's anti-phoenix activity reforms.

We welcome these steps as being in the best interests of all law abiding taxpayers and businesses.

$20,000 Asset Write Off Extended for Another Year

The instant asset write off has been extended a further year to 30 June 2019. This means that if a small business purchases an asset which costs under $20,000, it can effectively apply a 100% depreciation rate in the year of purchase. Certain qualifying conditions must be met first.

Depreciation normally operates to apply a deduction for an asset over its effective life, and as many of these assets are financed over three to five year terms the cash flow effect is evened out over this longer period.

Whilst offering significant cash flow advantages in the first year, it must be remembered that the effect is a one-off, and there is no further deduction in later years. This often leads to clients wondering why their tax is higher than expected in later years when the finance payments are being made, forgetting they received the benefit in year one.

Superannuation News

2018 Concessional (Deductible) Contributions Limit

Individuals are able to make concessional super contributions totalling $25,000 in the 2017/18 financial year.

Since 1 July 2017 individual taxpayers are able to make their own additional concessional contributions into their super funds and receive a tax deduction in addition to receiving SGC contributions from their employer.

Previously if you received more than 10% of your gross income from an employer, you needed to enter into a salary sacrifice arrangement with your employer if you wanted to ‘top up’ your SGC contributions.

Note that the $25,000 annual limit applies to contributions as and when they are received by the super fund. Most businesses will pay their June quarter SGC by the due date of 28 July, although some seek to pay prior to 30 June to bring forward the timing of the tax deduction.

Taxpayers need to ensure that their total contributions do not accidentally trip up the limit due to timing issues.

It would pay to call your super fund around mid-June to confirm the employer contributions made during the year to date before deciding on the exact amount to deposit. Also be aware that many superannuation funds receive a heap of last minute contributions, so you should check with your fund to see when they cease taking contributions for the year, to ensure you meet the cut-off.

Catch Up Contributions – How they Work

This measure was announced in last year’s budget.

From 1 July 2018, taxpayers with total superannuation balance of less than $500,000 will be able to access their ‘unused concessional contributions cap space’ on a rolling basis for five years. Amounts carried forward that have not been used after five years will expire.

So for qualifying taxpayers who don’t make concessional contributions of $25,000 in the current year, you will have the opportunity to make contributions in excess of the normal cap in future years.

This may be a useful strategy for reducing taxable income in a given year, particularly where a large, one-off capital gain is made. Of course, taxpayers need to consider whether making contributions to super are appropriate for their circumstances.

SMSFs Member Limit extended from 4 to 6

Self-Managed Super Funds have for a long time been restricted to four members, limiting their use as a 'family' investment vehicle. The Government have announced that they will extend this maximum number to six from 1 July 2019.

There are many potential benefits. This extension will allow additional children in SMSF's and provide an ability to bring in more than one child as a co-trustee where a fund has only one effective member.

There may also be some other limited benefits, for example where the death of a member would have necessitated the sale of a SMSF's key asset, as instead the deceased member's benefit can be re-contributed by the remaining members (subject to the new limits).

The Australian Labour Party have signalled their intention to deny the refund of excess franking credits. If they are elected to Government at the next federal election, their stated policy may be partially neutered by admitting more family members to offset the loss of franking credits against contributions tax.

It needs to be noted that all members of a fund must be trustees, so bringing in other family members will have an effect on decision making, and so should only occur after very careful consideration.

SMSF Audits every three years

In what can only be described as a last minute "thought bubble" policy, the Government announced that SMSFs would only require an audit every three years, provided they have a 'clean' compliance history.

Sounds nice in theory but is virtually impossible in practice.

The announcement is scant on detail, but it is assumed that new funds would be audited for the first three years before being eligible for a 'clean record'. 'Problem' funds would need to continue to be audited each year. Together these might comprise around 5% of all audits in the initial trimester, leading to a collapse in SMSF auditor numbers before a massive increase required in the third year to re-audit the 'clean' funds.

Then there is the problem of auditing the years in between.

Are auditors expected to report only on the third year, and disclaim opening balances and what went on in the other two years?

Audit risk, and accordingly audit costs, would be expected to spiral.

Expect this announcement to be quietly dropped.

Individual Tax News

Deductions Disallowed for holding Vacant Land

In an effort to stop 'land banking', the owner of a vacant property will not be able to claim a tax deduction for holding costs   Where the land is not genuinely held for the purpose of earning assessable income, expenses such as interest costs and rates will be denied. Land held as a development project whilst obtaining permits would be considered to be held for business purposes and would not be affected by the changes.

Where deductions are denied, they may be included as part of the cost base of the property for CGT purposes.

It presumably will only apply in a very small set of circumstances where the land is neither held for development or as a CGT asset, but the taxpayer would be able to 'negatively gear' the property holding expense against other income. We await clarification from the Government.

Vendor Tax Status (Non Overseas Resident) Certificate now required

From 1 July 2018, the sale of property with a value of over $750,000 will require the vendor to furnish a "Tax Status Statement" to the purchaser prior to settlement to avoid having a withholding tax applied to the sale proceeds.

This statement is to confirm that the vendor entity is not an overseas resident, and therefore at risk of repatriating the proceeds back home and avoiding any capital gains tax liability.

Transition arrangements apply where the contract went unconditional prior to 30 June 2018 and settlement is after this date.

We have also encountered occasions where clients with existing tax liabilities are being contacted by the ATO prior to issuing these statements, to ensure that these liabilities are paid.

Developers to have GST withheld from settlement

In a corollary measure, where you purchase land from a developer they are required to furnish a similar Vendor Tax Status Statement for the purchaser to withhold 10% of the purchase price as GST (or 5% if the Margin scheme applies). These funds are then paid direct to the ATO with the vendor receiving a GST credit to apply to their next applicable Business Activity Statement.

Clients involved in property development will need to consider their cash-flow implications, particularly where the sale of the property is being used to retire debt.

Tax Rates

The Government have announced various changes to individual and company income tax rates.

Given the difficulty the Government has in getting these cuts through the Parliament we have not bothered to note them here.

It appears the rates which applied in 2017/18 will continue to apply in 2018/19.

Super Fees on Small Balances to be Capped

The Government has announced that super fund accounts with balances below $6,000 will have the fees capped at 3% (balances below $1,000 should not be incurring any fees).

More importantly, members must now opt-in for super funds to apply and charge for life and income protection insurances for members with balances under $6,000, where they are under 25, or where they have not made a contribution in 13 months.

This measure will stop member balances being eroded away by sometimes inappropriate or unnecessary insurance premiums. However, in some circumstances members will need to be aware of the need to take up the opt-in option if they take time out of the workforce and do indeed want the insurance coverage to continue.

Minors and Testamentary Rates

Whilst not a measure which affects many clients yet, minors being taxed as adults on income received from a testamentary trust will have this benefit restricted to assets left to them under the will.

In other words, the testamentary trust will not be able to receive an injection of cash or assets from another source and then have the income from these assets applied to minors to receive concessional tax rates.

With many baby boomers retiring with significant assets, we believe that Testamentary Trusts will become a significant tax planning structure as part of their estate planning.

Aged Pensioners

Pensioners currently can only earn $6,500 pa before their pension is reduced under the Centrelink income test. This amount will be increased to $7,800 from 1 July 2019.

Social news: **Colville Williams & Co**

After four years with Colville, **Cameron Bailey** left to further his career elsewhere. Cameron has almost completed his CPA studies and we wish him all the best for the future.

We are also very excited to announce that **Zain Ayub** commenced employment with us in June. Zain has four years experience and will be employed as a senior accountant. Zain joins us with high expectations and we are really looking forward to working with him.

Chris Schuck recently completed his time with Colville. We thank him for his valuable contribution and wish him the very best.

Naomi Read joined our admin team on a part time basis in December 2017. She will be assisting Merilyn and Catherine with your appointments this year. Naomi is married to Mark and they have two children. They live on a farm and try to live a sustainable lifestyle. We have been enjoying free range eggs and honey from the bee hives.

Can't make it in to see us?

Consider faxing the information to us on **9432 0808** or emailing to **mail@colville.com.au.**

We can usually prepare simple returns within the week at no extra cost. Don't forget to include your contact phone numbers or email addresses so we can verify any items with you.

Bring your current bank account details (BSB and Account Number)

Tax Time Checklist

Personal Information

- ☐ Bank account details for refunds
- ☐ Home email address

Employment and Pension Income

- ☐ PAYGW payment summaries
- ☐ PAYGW Termination payment advices
- ☐ Centrelink Pension certificates
- ☐ Centrelink Unemployment certificates
- ☐ Account Based Pension Payment Summaries (if aged 55 - 60)

Deductions

Diarised Items:

- ☐ Odometer reading @ 30/06/18 (optional)
- ☐ Travel - Business kms
- ☐ Car expenses - petrol
- ☐ Travel - overseas, interstate
- ☐ Minor expenses less than $10 each (max $200)
- ☐ Home office hours

Receipted Items:

- ☐ Car expenses - Rego, insurance, repairs & petrol
- ☐ Uniforms / footwear / dry cleaning
- ☐ Union fees
- ☐ Membership & Subscriptions
- ☐ Tools of trade
- ☐ Computer, printer, internet
- ☐ Income protection insurance
- ☐ Donations

General Items

Medical and Superannuation

- ☐ Superannuation contributions - Self & spouse
- ☐ Private Health Insurance Tax Statement

Spouse & Children Details

- ☐ Taxable income
- ☐ Names & dates of birth
- ☐ Family tax benefits status (Centrelink)

Investments

- ☐ Interest Income on interest bearing accounts
- ☐ Internet banking accounts
- ☐ Cash management trust accounts
- ☐ Term deposits
  (Please provide the a/c no. & interest earned for each a/c. We recommend that you get the details in writing from your bank)
- ☐ Dividend income (advices preferred)
- ☐ Share purchase and sale details
  (Please provide a copy of all dividend, purchase and sale advice slips)
- ☐ Margin Lending loan statements (full year)
- ☐ Managed fund annual tax statements

Rental Properties

- ☐ Estate agent annual statements
  (Please request these from your agent, otherwise bring in the monthly payment summaries)
- ☐ Rates notices – council and water
- ☐ Insurances
- ☐ Body corporate fees
- ☐ Land tax
- ☐ Repairs and maintenance (invoices)
- ☐ Loan statements (full year)
- ☐ Purchase and / or sale details
  (Please provide a copy of all estate agent, solicitor and bank documentation relating to the original purchase and the sale if applicable).