Practice Update

June 2017

Budget Update

The Government handed down the 2017/18 Federal Budget on Tuesday 9th May 2017.

The Budget proposes (amongst several other changes) to increase the Medicare Levy by 0.5% to 2.5% from 1 July 2019 (and tax and withholding rates that are linked to the highest marginal income tax (e.g., FBT) will also increase from 1 July 2019).

One of the other more significant Budget announcements is that, from 9 May 2017, the Government proposes to limit plant and equipment depreciation deductions (e.g., for dishwashers and ceiling fans) to outlays actually incurred by investors in **residential properties**.

More specifically:

- Plant and equipment forming part of residential investment properties **as of 9 May 2017** (including contracts already entered into by 9 May 2017) will *continue* to give rise to deductions for depreciation until either the investor no longer owns the asset, or the asset reaches the end of its effective life.
- Investors who purchase plant and equipment for their residential investment property ***after*** **9 May 2017** will be able to claim a deduction over the effective life of the asset. However, subsequent owners of a property will be unable to claim deductions for plant and equipment purchased by a previous owner of that property (acquisitions of existing plant and equipment items will instead be reflected in the cost base for CGT purposes).

More taxpayers can access the benefits of being an 'SBE'

Editor: Recent changes to the law have expanded the eligibility criteria for a taxpayer to be considered a 'Small Business Entity' (or 'SBE'), meaning more businesses will be able to utilise the tax concessions that are only available to SBEs.

Broadly speaking, for the year ending 30 June 2017, a business taxpayer will be an SBE if its 'aggregated turnover' is less than **$10,000,000**.

That is, where the business' 'aggregated turnover' (taking into account the turnover of the entity carrying on the business and the turnover of its related parties) is less than $10,000,000, it will be able to access most of the concessions available to SBE taxpayers, including:

- Access to:
  - the lower corporate tax rate of 27.5%;
  - the SBE simplified depreciation rules, including the ability to claim an immediate deduction for assets costing less than $20,000;
  - the simplified trading stock rules;
  - the small business restructure rollover relief;
  - deductions for certain prepaid business expenditure made in the 2017 income year;
  - the simplified method for paying PAYG instalments calculated by the ATO; and
  - the FBT car parking exemption;
- Expanded access to the FBT exemption for portable electronic devices;
- Ability to claim an immediate deduction for start-up expenses; and
- The option to account for GST on a cash basis and pay GST instalments as calculated by the ATO.

Editor: Note that the reduction in the SBE company tax rate to 27.5% for the 2017 income year was accompanied by a limitation on the maximum rate that such companies can frank their dividends also to 27.5%.

Consequently, if an SBE company fully franked a distribution before the law changed on 19 May 2017, the amount of the franking credit on the distribution statement provided to shareholders may be incorrect (if the franked distribution was based on the 30% company tax rate).

The ATO has set out a practical compliance approach for such companies to recognise the change and to notify their shareholders. Please contact this office if you would like more information about this.

Who is assessed on interest on bank accounts?

As a general proposition, for income tax purposes, interest income on a bank account is assessable to the account holders in proportion to their beneficial ownership of the money in the account.

The ATO will assume, unless there is evidence to the contrary, that joint account holders beneficially own the money in equal shares.

However, this is a **rebuttable** presumption, if there is evidence to show that joint account holders hold money in the account on trust for other persons.

Example – Joint signatory (but no beneficial ownership of account)

Adrian's elderly aunt has a bank account in her name, and Adrian is a joint signatory to that account. Adrian will only operate the account if his aunt is unable to do so due to ill health, but all the funds in the account are hers, and Adrian is not entitled to personally receive any money from the account.

Adrian does not have any beneficial ownership of the money in the account and is therefore ***not assessable*** on the interest income.

Children's bank accounts

In relation to bank accounts operated by a parent on behalf of a child, where the child beneficially owns the money in the account, the parent can show the interest in a tax return lodged for the child, and the lodgment of a trust return will not be necessary.

Example – Child savings account – parent operates as trustee

Raymond, aged 14, has accumulated $7,000 over the years from birthdays and other special occasions. Raymond's mother has placed the money into a bank account in his name, which she operates on his behalf, but she does not use the money in the account for herself or others.

Raymond earns $490 in interest during an income year and, since he has beneficial ownership of the money in the account, he is therefore assessable on all of the interest income.

However, as Raymond is under 18 years of age, he will be subject to the higher rates of tax that can apply to children. If Raymond shows the interest in his tax return for that income year, his mother will not need to lodge a trust tax return.

Using social media? Be aware of tax scams!

The ATO has advised that, in the lead up to tax time, it's important to be aware of what taxpayers share on social media.

Note that scammers may also try to impersonate a tax agent (or their practice) and try to trick recipients into providing personal information or to release funds.

The ATO recommends that all taxpayers:

- ensure their computer security systems are up to date and they are protected against cyber attacks;
- keep personal information secure (including user IDs, passwords, AUSkeys, TFNs); and
- do not click on downloads, hyperlinks or open attachments in unsolicited or unfamiliar e-mails, SMS or social media.

Editor: Call our office if you think you've received a suspicious e-mail claiming to be from us or the ATO.

FBT: Car parking threshold

The car parking threshold for the FBT year commencing 1 April 2017 is $8.66. This replaces the amount of $8.48 that applied in the previous year commencing 1 April 2016.