TAXWISE INDIVIDUAL NEWS

Acro Accounting & Financial Planning

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It's Tax Time 2017! What you need to know about the key changes

There are some **key changes and new measures** you need to be aware of when preparing your clients' tax returns this tax time.

These include:

- Working holiday makers tax rate
- Norfolk Island tax
- Tax relief for New Zealand special visa holders
- Foreign resident capital gains withholding
- Reportable fringe benefits
- Business services wage assessment tool payments
- Farm management deposit reforms
- Primary production averaging reforms
- Expanded access to small business concessions
- Small business income tax offset changes
- Reduction to the small business company tax rate
- Early stage venture capital limited partnership
- Early stage investor tax incentives
- Significant global entities
- Limited recourse borrowing arrangement reporting
- Transitional capital gains tax relief for super funds
- Increasing access to company losses.

Key dates for Tax Time

The ATO started full processing of 2016-17 tax returns on 7 July 2017 and started paying out any refunds shortly after that. The ATO aims to finalise the majority of electronically-lodged current year returns within 12 business days of receipt.

However, tax returns lodged on paper could take up to 50 business days from receipt to be finalised. The ATO encourages you to lodge electronically if at all possible. Go to this **timeline to view the key dates** for Tax Time 2017.

Claiming work-related expenses?

The ATO is paying attention to people who are **over-claiming work-related expenses.**

To get your deductions right, you need to satisfy the following rules:

- you must have spent the money and were not reimbursed;
- it must be directly related to earning your income, and not of a private nature;
- you must have a record to prove it.

To do!

Talk to your tax agent about any claims you would like to make in your tax return. They will be able to assist you to ensure you get them right!

myDeductions - a record keeping tool

If you are a sole trader and have simple tax affairs, the ATO's myDeductions tool can help you if you are looking for a quick and easy way to manage your records.

Available through the ATO app, the tool allows taxpayers to use their smart devices to capture and record business income, expenses and vehicle trips and in doing so minimise the need for paper receipts.

Taxpayers can also use the tool to record a range of personal and employee work related expenses.

To learn more, visit the ATO website.

Tip!

While the online tools for lodging tax returns are improving for individuals, your tax agent is most experienced in preparing and lodging tax returns.

For specialist advice and to ensure you claim the right deductions for you, please see your tax agent. Getting your tax return wrong could be costly for you.

Housing tax deductions: disallowing travel deductions and limiting depreciation deductions

The Government has released exposure draft legislation and explanatory material for the housing affordability and tax integrity measures the Government announced in the 2017-18 Budget.

The Government introduced these measures as they have concerns around the abuse of deductions in relation to rental properties that do not represent a legitimate commercial need. Travel deductions for individual investors with residential investment properties, including travel costs associated with inspecting and maintaining properties, will no longer be deductible. This change will not prevent investors from claiming a deduction for the expense of engaging third parties such as real estate agents to provide property management services for investment properties.

It appears that significant abuse of the tax system has been witnessed in relation to property investors and advisers claiming excess deductions. This change will improve the integrity of the tax system by limiting plant and equipment depreciation deductions to outlays actually incurred by individual investors in residential real estate properties.

To do!

If you own a rental property, talk to your tax agent about whether these changes affect you in any way.

ATO warning on holiday rental properties

The ATO has issued a media release reminding taxpayers that it is paying close attention to rental properties located in popular holiday destinations around Australia.

Claiming deductions for your holiday home?

Make sure it is genuinely available for rent by answering these four questions:

- How do you advertise your rental property?
- What location and condition is your rental property in?
- Do you have reasonable conditions for renting the property and charge market rate?
- Do you accept interested tenants, unless you have a good reason not to?

Changes to capital gains withholding rules for foreign and Australian residents

The ATO has issued a reminder that changes to the rules for foreign resident capital gains withholding (FRCGW) have come into effect for all property contracts entered into on or after 1 July 2017:

- for real property disposals where the contract price is $750,000 and above (previously $2 million);
- the FRCGW withholding tax rate is now 12.5% (previously 10%).

The changes mean that Australian residents selling real estate with a market value of $750,000 or more will need to apply for a clearance certificate from the ATO to ensure amounts are not withheld from the sale proceeds.
Where a valid clearance certificate is not provided by settlement, the purchaser is required to withhold 12.5% of the purchase price and pay this to the ATO.

The previous threshold and rate will apply for any contracts that were entered into before 1 July 2017, even if they are not due to settle until after 1 July 2017.

Main residence exemption

From 9 May 2017, the Government will remove the entitlement to the CGT main residence exemption for foreign residents that have dwellings that qualify as their main residence. Therefore, any such capital gain or loss arising upon disposal of a foreign resident's main residence will need to be recognised.

Principal asset test

From 9 May 2017, the Government will modify the foreign resident CGT regime to clarify that, for the purpose of determining whether an entity's underlying value is principally derived from taxable Australian real property, the principal asset test will apply on an associate inclusive basis.

Housing-related superannuation measures

The Government recently released draft legislation which will establish a First Home Super Saver Scheme, and allow a special "downsizing" contribution into superannuation.

The draft legislation for the First Home Super Saver Scheme would allow individuals to save for their first home inside superannuation. Under the scheme, first home savers who make voluntary contributions into the superannuation system would be able to withdraw those contributions, and an amount of associated earnings, for the purposes of purchasing their first homes. Concessional tax treatment would apply to amounts withdrawn under the scheme.

The draft legislation for the downsizing measure would allow individuals aged 65 years or over to make non-concessional contributions of up to $300,000 from the proceeds of selling their main residences to their superannuation accounts. Downsizer contributions will be able to be made regardless of the other contribution caps and restrictions that might apply to making voluntary contributions. This measure would apply to proceeds from contracts for the sale of a main residence entered into (exchanged) on or after 1 July 2018.

Superannuation - Key rates and thresholds

The ATO has released the key superannuation rates and thresholds that apply to contributions and benefits, employment termination payments (ETP), super guarantee and co-contributions.

For the 2017-18 income year, the:

- concessional contribution cap is $25,000
- non-concessional contribution cap is $100,000 (conditions apply)
- CGT cap amount is $1,445,000
- Div 293 tax threshold amount is $250,000
- low rate cap amount is $200,000
- ETP cap for life benefit termination payments is $200,000
- ETP cap for death benefit termination payments is $200,00.

The full list of rates and thresholds can be found on the ATO website.

Do the super changes affect you?

Most of the changes to the superannuation system commenced on 1 July 2017.

The ATO has released a breakdown of the new super changes. The changes are categorised by the situation they apply to. Check the ATO website to see if you are directly affected.

Superannuation changes to be aware of

i) Change to personal super contributions deductions

In 2016-17, an individual (mainly those who are self-employed) can 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 is known as the 10% maximum earnings condition.

From 1 July 2017, the 10% work test for claiming a deduction for personal super contributions will be 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).

ii) Changes to concessional contributions – constitutionally protected and unfunded defined benefit funds

From 1 July 2017, there are changes to the definition of concessional contributions for constitutionally protected funds (CPFs) and unfunded defined benefit funds. These contributions will count towards your concessional contributions cap.
The ATO has released information on the following topics, which can be accessed on the ATO website.

- What are CPFs and unfunded defined benefit funds?
- What are the changes?

- New rules for accumulation interests
- New rules for defined benefit interests
- Excess concessional contributions.

iii) Removal of election to treat super income streams as lump sums

From 1 July 2017, the Government will remove the ability to treat super income stream benefits as super lump sums for tax purposes.

This change means that, if you are receiving a super income stream, and normally would have made this election, you will no longer have access to the super lump sum low rate cap for payments from your income stream. Therefore, the amount of tax you have to pay on your super income stream may change.

iv) New transfer balance cap – child death benefit recipients

From 1 July 2017, the Government has introduced a new transfer balance cap for retirement phase accounts. Different rules apply for child recipients of death benefit income streams.

Child recipients of a death benefit income stream from a deceased parent may have a modified transfer balance cap, rather than the general transfer balance cap ($1.6 million in 2017-18).

The normal transfer balance rules apply, but the modified transfer balance cap depends on the deceased parent's super interests.

v) New transfer balance cap – death benefit income streams

From 1 July 2017, there is a $1.6 million cap on the total amount that can be transferred and held in the tax-free retirement phase. Special rules apply to death benefit income streams.

If you start to receive a death benefit income stream, a credit will arise in your transfer balance account. The amount of the credit and when it counts towards your transfer balance cap will depend on whether the death benefit income stream is reversionary or non-reversionary:

- reversionary – the income stream reverts to you automatically upon the member's death
- non-reversionary – the trustee has the power to choose between paying you a lump sum or an income stream (or a combination of these).

vi) Transfer balance account – credits and debits

From 1 July 2017, the Government introduced a new transfer balance cap for retirement phase accounts.

Your transfer balance account tracks the amounts you transfer into or out of retirement phase and allows you to see whether you have exceeded your transfer balance cap.

Note!

There have been a lot of changes to the superannuation rules recently. It is worth sitting down with your tax adviser or tax agent to discuss how these changes might affect you.

Tax incentives for early stage investors

From 1 July 2016, investors who purchase new shares in a qualifying early stage innovation company (ESIC) may be eligible for tax incentives.

The tax incentives provide eligible investors who purchase new shares in an ESIC with a:

- non-refundable carry forward tax offset equal to 20% of the amount paid for their qualifying investments. This is capped at a maximum tax offset amount of $200,000 for the investor and their affiliates combined in each income year
- modified capital gains tax (CGT) treatment, under which capital gains on qualifying shares that are continuously held for at least 12 months and less than 10 years may be disregarded. Capital losses on shares held less than ten years must be disregarded.

More information on qualifying for the tax incentive, the sophisticated investor test and calculating the early stage investor tax offset can be found on the ATO website.

Stop! Scammer time!

The ATO is reminding Australians to stop and think before giving their personal details or hard-earned money to scammers this tax time.

Assistant Commissioner Kath Anderson said 48,084 scams were reported to the ATO between July and October last year.

For tips on how to avoid tax time traps, visit the ATO website.

Claiming the HECS-HELP benefit

If you have graduated from studies in early childhood education, maths, science, education or nursing, you may be eligible to apply for the HECS-HELP benefit.

This benefit is an incentive for these graduates to take up related occupations or work in specified locations to reduce their compulsory HELP repayments.

The HECS-HELP benefit is coming to an end and the 2017 income year is the last year your clients can claim the benefit.

Notice of an update to ATO data matching program

On 5 June 2017, the ATO released a notice of an update to a data matching program – Ride-sourcing 2015-16 to 2018-19 financial years in Gazette – C2017G00611.

This data matching program has been amended from the original version published in December 2016 to include ride-sourcing facilitators as additional data providers and to extend the financial years included in the program.

The ATO will acquire data to identify individuals that may be engaged in providing ride-sourcing services during the 2015-16 to 2018-19 financial years.

Changes to Medicare Levy and Medicare Levy Surcharge

The *Treasury Laws Amendment (Medicare Levy and Medicare Levy Surcharge) Act 2017* amends the *Medicare Levy Act 1986* and the *A New Tax System (Medicare Levy Surcharge - Fringe Benefits) Act 1999* to increase:

- the Medicare levy low-income thresholds for individuals and families (along with the dependent child/student component of the family threshold) in line with movements in the consumer price index (CPI);
- the Medicare levy low-income threshold for individuals and families eligible for the seniors and pensioners tax offset (along with the dependent child/student component of the family threshold), in line with movements in the CPI; and
- the Medicare levy surcharge low-income threshold in line with movements in the CPI.

In addition:

- The singles threshold will increase from $21,335 to $21,655.
- The family threshold will increase from $36,001 to $36,541 plus $3,356 for each dependent child or student.
- The single seniors and pensioners threshold will increase from $33,738 to $34,244.
- The family threshold for seniors and pensioners will increase from $46,966 to $47,670 plus $3,356 for each dependent child or student.

GST on low value imported goods – Summary of reforms

The Government has passed the *Treasury Laws Amendment (GST Low Value goods) Act 2017* which will extend GST to low value imports of physical goods imported by consumers from 1 July 2018.

Businesses that meet the registration threshold of A$75,000 will need to take action now to review their business systems to ensure that they are able to comply.

The existing processes to collect GST on imports above $1,000 at the border are unchanged.

In summary, the reforms:

- make supplies of goods valued at A$1,000 or less at the time of supply connected with Australia if the goods are purchased by consumers and are brought into Australia with the assistance of the supplier;
- treat the operator of an electronic distribution platform (EDP) as the supplier of low value goods if the goods are purchased through the platform by consumers and brought into Australia with the assistance of either the supplier or the operator;
- treat re-deliverers as the suppliers of low value goods if the goods are delivered outside of Australia as part of the supply, and the re-deliverer assists with their delivery into Australia as part of a shopping or mailbox service that it provides under an arrangement with the consumer;
- allow non-resident suppliers of low value goods that are connected with Australia to elect to access the simplified registration and reporting system; and
- prevent double taxation.

More information on the new GST on low value imported goods can be found on the ATO website.

Certainty for stakeholders who rely on ATO systems

On 12 July 2017, the ATO issued a media release stating that they remain committed to ensuring the ongoing stability, availability and resilience of their IT systems for Tax Time 2017 and into the future. The issues they have encountered with ATO systems over the past few weeks highlight the sheer size, scale, and complexity of the ATO's IT environment. The ATO stated that they will continue to examine the triggers and cause of these issues and this analysis is informing the ongoing remediation work they are undertaking.

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