Personal Client Newsletter

Financial Year Ending 30 June 2017

The 30 June 2017 financial year end is nearly upon us and we recommend to clients that at this time of the year consideration is given to items required to complete your 2017 Personal Income Tax Return.

1. Income Tax Rate Changes

(i) Tax Rates

There have been a number of tax rate changes that may influence your tax planning for the year ended 30 June 2017.

For individuals,

1) the $80,000 tax bracket, which is currently taxed at the rate of 32.5%, will be increased to $87,000 for the year ending 30 June 2017 and subsequent future years. This represents an annual tax saving of $385.

2) Furthermore, the government is still committed to removing the temporary budget repair levy of 2% effective 1 July 2017.

To the extent that income is derived by individual taxpayer with business income from an unincorporated business that is a Small Business Entity (SBE), a discount of 8% will apply on the income tax payable on the business income, capped at $1,000 per individual for the year ended 30 June 2017

The turnover threshold has also been increased to $5 million for the purpose of this test. In effect, these differences are marginal particularly given the discount is capped so they don't create significant tax planning opportunities.

(ii) HELP Debts

From 1 January 2016, taxpayers who have moved overseas for more than six months are required to pay back their HELP debts in the same way as they would if they were residing in Australia, with repayment obligations commencing 1 July 2017.

From 1 January 2017, the HECS-HELP upfront payment discount of 10% and the HELP voluntary repayment bonus of 5% have been removed.

2. Personal Tax Planning Opportunities

(i) Negative Gearing and Property

By definition, negative gearing is where you borrow to acquire an income producing asset and the interest and other tax-deductible costs you incur exceed the income you receive from the investment.

Negative Gearing isn't suitable for all investors and the tax benefits should not be the only reason for the property purchase. Although it can lower your tax liability, the tax implications will depend on your personal situation and the type of investment you choose. As the description implies, negative gearing means a negative cashflow that you need to fund from other income sources.

Creating wealth through purchasing an investment property is a well-established practice in this country, however, negative gearing can also apply to other types of income producing investments such as shares and managed funds. The attraction of borrowing or 'gearing' is that you can invest in shares or property that might otherwise have been unaffordable. For individuals, the loss can also be offset against other assessable income and the tax benefit will depend on your marginal tax rate.

The real benefits of negative gearing are only realized when you combine the correct tax and financial advice with a property in the right location funded by the most suitable loan product. You should always seek expert professional advice to make sure the purchase is within your budget and will provide long term taxation and financial benefits.

The Risks

While gearing can amplify your gains, it can also magnify your losses. If you negatively gear property, you need to understand some important points:

- Investing in property is usually a medium to long term investment and requires planning. Extra caution must be exercised when a property is projected to generate a negative cash flow for a number of years.
- Properties are expected to generate profits only through Capital Gains and there is no guarantee that the value of the property will appreciate enough during the holding period to cover your losses.
- You have to remember that the family home is a purchase from the heart while an investment property needs to be a purchase from the head. You've heard the old saying that the three most important things when buying a property are: 'location, location, location' and this is even more important when buying an investment property.

Property Depreciations Report

If you have an investment property, a Property Depreciation Report (prepared by a Quantity Surveyor) will allow you to claim depreciation and capital works deductions on capital items within the property and on the property, itself.

The cost of this report is generally recouped several times over by the tax savings in the first year of property ownership.

The Tax Consequences

Negative gearing of a rental property can be complex. For example, some expenses are not deductible (stamp duty, initial repairs etc.) while other expenses such as borrowing costs and depreciation are generally claimed over a number of years. As such, the right taxation advice can nearly be as important as finding the right property.

(ii) Medical Expense Offset

The net Medical Expense Offset is being phased out over the next few years and will cease on 30 June 2019.

Eligibility rules have changed and only taxpayers with out-of-pocket medical expenses relating to disability aids, attendant care or aged care expenses are eligible. You must also have received the offset in your 2015/16 income tax return to claim the offset this year.

For those eligible, where your income is less than $90,000 for individuals or $180,000 (plus $1,500 for each dependent child) for couples or families, your net out of pocket medical expenditure in excess of $2,162 is subject to a rebate of 20%.

Where your income is above these thresholds, a rebate of 10% of your net out of pocket medical expenditure above $5,000 will be claimable.

The offset applies to expenditure actually paid during the year so if you qualify it could be prudent to pay any outstanding medical expenses prior to 30th June 2017.

(iii) Pay As You Go Withholding (PAYGW) Variation

If you are an employee, your employer is obligated to deduct PAYG Withholding Tax from your regular salary. Assuming that your employer has withheld the correct PAYGW, when you lodge your tax return (and assuming you have minimal other income or tax deductions) there should be very little, if any, tax payable or refundable. However, where you have significant tax-deductible expenses such as a net loss on your negatively geared investment property, you may be entitled to a significant tax refund.

In this case it might be advantageous to vary the amount of the PAYGW tax that is deducted from your regular pay so you get the benefit of the large tax refund progressively through the year.

This is achieved by lodging a PAYGW variation with the ATO. Once processed by the ATO, your employer is authorised to reduce the amount of the tax withheld from your regular salary and wages so you effectively receive more money each pay day rather than waiting until the end of the year for your lump sum tax refund.

The PAYGW variation for the year ending 30 June 2018 can be lodged now to take effect from the first pay of the new financial year. Please contact our office if you would like to apply for a PAYGW variation.

(iv) Changes to ATO Processes for Assessments and Activity Statements

The Australian Taxation Office has made changes in relation to issuing Tax Refunds, Business Activity Statements and Instalment Activity Statements which will have an impact on the processing of these documents in the future.

In relation to refunds on Assessment Notices, the Australian Taxation Office now require that all refunds be forwarded directly to a bank account. Accordingly, you must now provide details of the bank account you want your refund to be paid into on your Income Tax Return.

As the refunds will be paid directly to your nominated bank account it will eliminate the process of sending out refund cheques and streamline the process.

In relation to Business and Instalment Activity Statements, the Australian Taxation Office has advised that they will only issue paper statements to taxpayers who lodge their activity statements in a paper form.

For those taxpayers that lodge their statements in an Electronic Form (whether directly or through their Tax Agent) the statements will be sent electronically to the lodging party. Accordingly, where you have historically relied on the paper form to commence the preparation of the Activity Statement, but they have been lodged electronically by our office, you will no longer be able to rely on the receipt of these paper forms.

3. *Individuals & Families*

In addition to the above planning ideas, further ideas may be available for individuals and families with business or non-business income.

(i) Personal Income, Deductions and Tax Offsets

If you expect lower income in 2017/18 due to retirement or any other reason, consider deferring income until after 1 July, when you will be in a lower tax bracket. If you are a primary producer and you expect a permanent reduction in income, consider withdrawing from the income averaging system.

Arrange for deductible donations to be grouped in the higher income year, if you expect substantially higher or lower income in 2017/18 compared to 2016/17. Make all donations in the name of the higher income earner.

Possibly your greatest financial asset is your ability to earn an income. Income protection insurance generally replaces up to 75% of your salary if you are unable to work due to sickness or an accident. The insurance premium is normally tax deductible, plus you get the benefit of protecting your family's lifestyle if you cannot work due to sickness or an accident. It's a small price to pay for peace of mind. Similar to rental property interest, income protection premiums can also be pre-paid for 12 months to increase your deductions.

Expenses relating to investment activities can be prepaid before 30 June 2017. You can prepay up to 12 months of interest before 30 June on a loan for a property or share investment and claim a tax deduction this financial year.

Also, other expenses in relation to your investments can be prepaid before 30 June, including rental property repairs, memberships, subscriptions, and journals.

(ii) Capital Gains Tax (CGT)

A longer-term tax planning strategy can be reviewing the ownership of your investments. Any change of ownership needs to be carefully planned due to capital gains tax and stamp duty implications. Please seek advice from your Accountant prior to making any changes.

Investments may be owned by a Family Trust, which has the key advantage of providing flexibility in distributing income on an annual basis and an ability for up to $416 per year to be distributed to children or grandchildren tax-free.

If any assets have been sold which have been held for more than 12 months, an individual will be able to access the general 50% CGT discount on the sale.

If you have realised capital gains during the year, you should also consider selling any non-performing investments you hold before 30 June to crystallise a capital loss and reduce or even eliminate any potential capital gains tax liability. Unused capital losses can be carried forward to offset future capital gains.

Foreign Resident CGT Withholding

- When a foreign resident (vendor) disposes a taxable Australian property with a market value of $2m or more, the purchaser is required to withhold 10% of the sale price, unless the vendor has a clearance certificate from the ATO.

(iii) Removal of 2% Budget Deficit Repair Levy (BDRL) on 1 July 2017

The BDRL of 2% was a temporary levy only and ends on 30 June 2017. This means that taxpayers with taxable income above $180,000 will pay 2% less in tax and levies after 1 July 2017 (maximum rate of 47% reduced from 49%).

Therefore, consider deferring bonuses, capital gains and other income until after this date. Conversely, bringing forward expenditure or prepaying interest on investment loans will reap 2% more benefit before 30 June 2017.

(iv) Non-Commercial Losses

Losses of a business carried on by an individual or partnership may be required to be quarantined until future years against income of that or of a similar / related business. The exceptions are:

- If there is assessable income from the business of >$20,000
- Profit in 3 out of the last 5 years
- Real property of $500,000 or more is used in the business;
- Other assets of $100,000 or more are used in the business;
- Commissioner's discretion is exercised in relation to that business.

In addition to the above, taxpayers with adjusted taxable incomes above $250,000 cannot use these tests and losses are quarantined until a year where income falls below $250,000.

(v) Capital Protected Borrowings (CPB)

As an investor, you may purchase a capital protected product (also known as a capital protected borrowing). This typically involves an arrangement under which you use a limited recourse loan to fund the acquisition of shares, units in a unit trust (units) or stapled securities, either directly or indirectly.

CPBs are arrangements that protect an investor's 'capital' against the fall in market value of a security against which they have borrowed. Usually the capital protection involves a higher interest rate on the loan.

The interest incurred on loans associated with capital protected products (which did not separately identify or attach value to the loan's capital protection component) is fully deductible.

(vi) 20% Tax Offset for Investment in Start-Up Companies

From 1 July 2016, if you invest in a qualifying early stage innovation company (ESIC), you 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 $1.0m invested 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 ten years may be disregarded. Capital losses on shares held less than ten years must be disregarded.

Investors that don't meet the 'sophisticated investor' test under the *Corporations Act 2001* won't be eligible for any tax incentives if their total investment in qualifying ESICs in an income year is more than $50,000.

(vii) Tax Products

If you are considering investing in any 'tax effective' investments, ensure they have been granted a Product Ruling which sets out the tax treatment of the income and expenses in relation to the investment as the ATO are continuing to scrutinise these investments. Always seek professional advice from an AFS license holder before investing in any financial products.

__(viii) Employee Share Schemes__

The employee share scheme rules are quite complex. Employees are no longer allowed to elect that they be taxed up front. Instead, they are either taxed up front, or taxed at a deferred taxing point depending on how the scheme is structured. Employers are now required to provide employees with a statement advising of values of shares issued.

__(ix) Salary Packaging__

Now is the ideal time to review your salary packaging. With the FBT rate reducing to 47% from 1 April 2017 and concessional superannuation caps reducing to $25,000 from 1 July 2017, salary packaging should be reviewed. Tax savings can still be achieved with certain exempt and concessionally taxed benefits

If your marginal tax rate is 19% or more, salary sacrifice can be a great way to boost your superannuation and pay less tax. By putting pre-tax salary into super rather than having it taxed as normal income at your marginal rate you may save tax. This can be especially beneficial for employees nearing their retirement age.

__(x) Investment Properties__

If you receive income from a rental property you must declare this income on your tax return. This includes any bond money you have retained in place of rent or kept because of damage to the property requiring repairs; expenses reimbursed by the tenant and any insurance payout for lost rent.

Furthermore, you may be entitled to an immediate deduction for expenses incurred in maintaining and renting the property for the 2017 financial year. You should ensure that all possible expenses are properly recorded and all invoices, receipts are retained for substantiation.

If your property is managed by a real estate agent, they will provide you with an annual statement of income and expenses for the financial year. This document will assist us with completing your tax return.

Rental property expenses that you may be entitled to an immediate deduction include:

- Advertising for tenants
- Body Corporate fees and charges
- Borrowing Expenses
- Cleaning
- Council Rates
- Decline in value of depreciating assets
- Gardening/lawn mowing
- Water charges
- Insurance
- Interest on loan(s)
- Land Tax
- Legal expenses
- Pest control
- Property agent fees/commission
- Repairs & Maintenance
- Stationery, telephone and postage

4. PERSONAL TAX ITEMS

To assist in the preparation of your personal Income Tax Return, we ask your assistance in providing this office with the following information.

(i) Income:

- **Salary & Allowances** - PAYG Summaries from all employment and includes salary & wages, Allowances, commissions and tips;
- **Eligible Termination Payment Summary** (if applicable);
- **Interest Income** – Interest received or credited to your private bank accounts, your 30th June bank statement should provide you with an annual interest figure. If the account is in joint names, please advise us of the names on the account;
- **Sale of Listed Company Shares** – Buy and Sell contracts relating to the disposal of the shares;
- **Share Dividends** – Dividend Statements;
- **Employee Share Scheme (ESC)** - if you participate in ESC to receive discounted shares or rights to acquire shares, please provide us with ESC documents.
- **Managed Fund Distribution** – Annual Tax Statement showing breakdown of cash and non-cash distributions made by the Managed Fund during the Financial Year.
- **Rental Income from Investment Property** – Property agent annual tax statement, details of any expenses paid directly, bank loan statements, copy of al repair tax invoices;
- **Sale of any property** – Contact this office for a comprehensive listing of what is required
- **Department of Human Services / Centrelink payments -** PAYG Summaries;
- **Income from Income Protection Insurance policy, sickness and accident insurance policy or worker's compensation scheme -** PAYG Summaries.

(ii) Allowable Deductions:

- **Work related car or travel expenses**
- **Work related uniform or occupation specific clothing**
- **Donations made during the Financial Year**
- **Other Work related expenses**

  The expenses claimed must have a direct connection to you earning your income and includes such items as:

  1. union fees
  2. overtime meals
  3. attending formal education courses provided by professional associations
  4. seminars, conferences or education workshops
  5. books, journals and trade magazines
  6. tools and equipment
  7. protective items such as sunscreens and sunglasses
  8. computers and software
  9. telephone, internet and home office expenses

- **Self-education expenses**

  You may be eligible to claim costs for self-education expenses if there is a direct connection between your course of study and your current job or work activities i.e. your education will maintain or improve your skills. You cannot claim your education costs if you are studying so you can get a new job or open up a new business opportunity.

  Study expenses that may be claimed include:

  1. tuition and course fees (excluding HECS-HELP)
  2. textbooks
  3. professional and trade journals
  4. stationery, for example pens and pencils
  5. photocopying
  6. accommodation and meal expenses if you are away from home overnight in connection with work related study activities
  7. travel expenses to and from university of TAFE
  8. the decline in value of equipment used in study, such as computer

- **Income Protection Insurance Premiums**

(iii) Tax Offsets:

Low Income Earner Tax Offset (maximum $445.00):

The income thresholds applicable to the financial year ended 30 June 2017 are set out below:

Taxable Income	Offset Amount
$Nil to $37,000	$445.00 (Full tax offset)
$37,000 to $66,667	$445.00 Less 1.5% of part over $37,000.00
$66,667 and over	NIL

Private Health Insurance Rebate and Medicare Levy Surcharge Rates

From 1 July 2015, the income thresholds used to calculate Medicare levy surcharge (MLS) and Private health insurance (PHI) rebate will remain the same for the 2014/15; 2015/16; 2016/17 and 2017/18 financial years.

The income thresholds that apply for the financial year ended 30 June 2016 to 30 June 2018 are set out below:

	Full Entitlement	Tier 1	Tier 2	Tier 3
Taxable income				
Singles	**$90,000 or less**	**$90,001 - $105,000**	**$105,001 - $140,000**	**> $140,000**
Families	**$180,000 or less**	**$180,001 - $210,000**	**$210,001 - $280,000**	**> $280,000**
Rebate for premiums paid – 1 July 2016 to 31 March 2017				
Aged under 65 years	26.79%	17.86%	8.93%	0%
Aged 65-69 years	31.26%	22.33%	13.40%	0%
Aged 70 or over	35.72%	26.79%	17.86%	0%
Rebate for premiums paid – 1 April 2017 to 30 June 2017				
Aged under 65 years	25.93%	17.29%	8.65%	0%
Aged 65-69 years	30.26%	21.61%	12.97%	0%
Aged 70 or over	34.58%	25.93%	17.29%	0%

Medicare Levy Surcharge (MLS) - No change:

The Medicare levy surcharge remains the same. Currently the rate varies between 1.0% to 1.5% depending on the income and marital status of the taxpayer. The surcharge applies to those without adequate private health insurance cover per the following table:

	Unchanged	**Tier 1**	**Tier 2**	**Tier 3**
Taxable income				
Singles	**$90,000 or less**	**$90,001 - $105,000**	**$105,001 - $140,000**	**> $140,000**
Families	**$180,000 or less**	**$180,001 - $210,000**	**$210,001 - $280,000**	**> $280,000**
Medicare levy surcharge rate	**0%**	**1%**	**1.25%**	**1.5%**

Note: For families, the income thresholds increase by $1,500 for each MLS dependent child after the first

Superannuation Co-Contributions

Super co-contribution aims to help eligible people boost their retirement savings. If you're a low or middle-income earner and make personal (after tax) contributions to your super, the Government also makes a contribution (called a co-contribution) up to the maximum amount of $500.

If your total income is less than $51,021 you may be eligible for a super co-contribution from the Federal Government. For each dollar in personal after-tax super contributions, the Government will contribute from 50 cents up to a maximum of $500 for those earning $36,021 or less.

For the purposes of this test, total income is assessable income plus reportable fringe benefits plus reportable employer superannuation contributions, less allowable business deductions.

Please ensure that your superannuation fund has recorded your Tax File Number. The Australian Taxation Office will use the information from your Income Tax Return and the information supplied by your Superannuation Fund to work out whether you are eligible.

When your Super Fund accepts the co-contribution payment, the Australian Taxation Office will provide a notice to this office which will be forwarded to you for your records. Your superannuation fund will also notify you of the amount of Super Co-contribution received on their bi-annual member's statement.

<u>Division 293 tax - additional 15% tax on concessional contributions by high income earners</u>

Concessional contributions (that is employer contributions, salary sacrifice or personal contributions for which a deduction is claimed) are currently taxed at 15% when received by your superannuation fund.

Division 293 of the Income Tax Assessment Act 1997 imposes an additional 15% tax on these concessional contributions for individuals with adjusted taxable incomes of $300,000 or more. The assessments for this additional 15% tax are issued automatically and are payable within 28 days from the date of issue.

The payment can be made either by the individual themselves or by the superannuation fund where the individual has sufficient member's balance. As the maximum deducted contribution for the 2016/2017 financial year is capped the maximum Division 293 tax assessment is as follows:

- $4,500 for anyone under 50 years of age ($30,000 x 15%); or
- $5,250 for anyone over 50 years of age ($35,000 x 15%).

<u>Substantiation</u>

Please be aware that there are serious offences, fines and imposts associated with making a false claim in your Income Tax Return and that it is the obligation of a taxpayer to substantiate expenses and claims made as tax deductions. We strongly suggest that you routinely retain all expense receipts, invoices and vouchers and that you maintain continually throughout the year a diary or some other ongoing record of costs incurred no matter how minor so that they may be able to be claimed when preparing your Income Tax Return.