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EOFY
Actions for Business

There are a number of tax changes that apply to companies from 1 July 2017. This is a brief update, please call us if you would like to better understand how these changes impact you and your business.

If your business has an aggregated turnover of less than $10m then it should have access to a range of small business entity tax concessions (the turnover threshold for these rules was $2m in prior years). This is a positive change that includes a reduction in your businesses corporate tax rate to 27.5% for the current year (2016-17). If your company has already paid dividends during the year, please ensure you read the company tax rate section as the maximum franking percentage for these dividends has changed.

In brief

Date	Changes and actions
1 July 2016 – *retrospective changes*	Small business entity (SBE) threshold changes from $2m to $10m - the SBE concessions provide a series of concessions for small businesses. Company tax rate reduced to 27.5% for small businesses with an aggregated turnover below $10m.
Pre 30 June 2017	Review shareholder loan accounts and make minimum loan repayments (may need to declare dividends). The maximum franking percentage for a dividend is now 27.5% for small business entities. Pay superannuation to deduct contributions in the current financial year. Complete a stocktake where required (see *Do you need to do a stocktake?*). Write off bad debts and scrap any obsolete stock or plant and equipment. Ensure any inter-entity management fees have been raised.
1 July 2017	GST applies to digital products & services imported by consumers.
14 July 2017 (on or before)	PAYG Payment Summaries provided to all of your staff.
28 July 2017	Quarterly super guarantee payment due (1 April – 30 June).
14 August 2017	Annual PAYG Payment Summary lodged with the ATO. Penalties apply for late lodgement.
28 August 2017	Taxable payments annual report for the building & construction industry due.
30 June 2018	$20k instant asset write-off reduces back to $1,000.
1 July 2018	Taxable payments annual reporting extended to cleaning and courier businesses.

What’s new

Small business entity threshold increased to $10m
The threshold to access the small business entity concessions has increased to $10m from 2016-17 enabling more businesses to access these concessions. The concessions provide access to:

Immediate deductibility for small business start-up expenses
New small businesses can immediately deduct a range of professional expenses required to start up a business – such as professional, legal and accounting advice as well as amounts paid to Government agencies to set up the entity.

Simpler depreciation rules
Choose to pool assets and claim one deduction for each pool. Plus, access to the $20k accelerated deductions (see *$20k accelerated deductions for small business extended another year* below).

Simplified trading stock rules
You can choose not to conduct a stocktake if there is a difference of less than $5,000 between the opening value of trading stock and a reasonable estimate of the closing value of trading stock at the end of the income year.

Roll-over for restructures of small businesses
The ability to change your businesses legal structure without triggering CGT or income tax implications on the transfer of depreciating assets or trading stock.

Immediate deductions for certain prepaid business expenses
Choose to claim an immediate deduction for prepaid expenses where the payment is for a period of service which is 12 months or less and ends in the next income year.

Accounting for GST on a cash basis
You can choose to account for GST on a cash basis (i.e. when you receive payment for a sale made). Your business can also claim GST credits when you actually pay for a purchase.

Annual apportionment of input tax credits for acquisitions and importations that are partly creditable
Account for the private portion of business purchases annually rather than on each activity statement. Full GST credits can be claimed for a business purchase and an adjustment made for the private portion of the purchase in a later activity statement.

Paying GST by quarterly instalments
You can choose to pay a GST instalment amount worked out by the ATO that can vary each quarter. Annual GST returns are lodged for this method.

FBT car parking exemption
An exemption from FBT on certain car parking benefits provided to employees.

Corporate tax rate reduction

For the 2017 income year, the tax rate for companies that carry on a business in their own right has been reduced to 27.5% if their aggregated annual turnover is less than $10m. While this is good news, it also impacts on the franking credits that can be allocated to dividends paid by the company.

For the 2017 income year onwards, the maximum franking percentage will be based on the company’s corporate tax rate for that year, which will be worked out using the company’s aggregated turnover for the previous income year. This is because the company may not know its aggregated turnover for the current year at the time the dividend is paid. This means that many companies which qualify for the 27.5% tax rate in the 2017 year will also be restricted in the amount of franking credits that can be attached to the dividends.

If companies subject to the 27.5% limit have already paid dividends in the 2017 year that have been franked to 30% then this would breach the maximum franking rate rules. The shareholders would only be able to claim back franking credits at the 27.5% rate, despite what might be shown on the distribution statement that they have received.

As a practical measure, the ATO is proposing to allow companies to issue written notification to shareholders with details of the correct franking credits that can be claimed. There is no need to seek the Commissioner's discretion in this case. Also, the Commissioner will not impose penalties for providing an incorrect distribution statement in the first place as long as revised details are sent to shareholders.

It will be necessary to check that the correct amount has been subtracted from the company's franking account balance as well.

$20k accelerated deductions for small business extended another year

The ability for small business entities to claim an immediate deduction for assets costing less than $20,000 has been extended until 30 June 2018.

From 1 July 2018, the immediate deduction threshold will reduce back to $1,000.

There are no limits to the number of times you can use the immediate deduction assuming your cash flow supports the purchases.

If your business is registered for GST, the cost of the asset needs to be less than $20,000 after the GST credits that can be claimed by the business have been subtracted from the purchase price. If your business is not registered for GST, it is the GST inclusive amount.

Second hand goods are also deductible. However, there are a number of assets that don't qualify for the instant asset write-off as they have their own set of rules. These include horticultural plants, capital works (building construction costs etc.), assets leased to another party on a depreciating asset lease, etc.

If you purchase assets costing $20,000 or more, the immediate deduction does not apply but small businesses have the ability to allocate the purchase to a pool and depreciate the pool at a rate of 15% in the first year and 30% for each year thereafter.

Cleaning and courier businesses

From 1 July 2018, courier and cleaning businesses will need to lodge additional reports to the Australian Taxation Office about payments made to contractors (individual payments and total for the year). While this is a year away, if your business is affected by the change, think about what systems you will need to track and measure these payments and collect the required information from contractors.

GST and digital products and services

From 1 July 2017, certain supplies of digital products and services to Australian consumers by overseas suppliers will be subject to GST in Australia, even if the supplier does not have a physical presence in Australia. The rules are not intended to apply in situations where the Australian customer is registered for GST and the acquisition relates to their business activities.

The new rules use a vendor registration model. That is, businesses based overseas and selling into

Australia will need to register and comply voluntarily with Australian tax law.

These rules apply to supplies of music, games, apps, movies and books as well as certain professional services. Contracts, supply agreements, licensing agreements and royalty arrangements for digital products may all be affected.

Deductibility of superannuation

From 1 July 2017, the ability to claim a tax deduction for superannuation contributions has been broadened.

Currently, to claim a tax deduction for your personal super contributions you need to earn less than 10% of your income from salary or wages etc. From 1 July 2017, the 10% rule will be abolished.

This change will be useful for individuals who hold their insurance through super as they will be able to claim a personal tax deduction for these insurance premium contributions. The caveat here is that these contributions must remain within the reduced $25,000 concessional contributions cap.

Crowd-sourced equity funding to private companies

From 29 September 2017, new rules establish a crowd-sourced equity funding regime for public companies. Private companies however, have to wait a little longer with the legislation amending the Corporations Act currently in consultation. The rules for private companies are less onerous than those imposed on public companies but there will still be a level of compliance involved to access this new funding source including the preparation of annual financial and directors' reports, audited financial statements where companies raise more than $1m, and rules that dictate how you need to interact with shareholders.

We will keep you informed about the changes when the final shape of the new regime is known to explore if a crowd based model is of benefit to you.

GST on property developments

The Government intends to change how GST is collected on sales of newly constructed residential properties or new subdivisions. From 1 July 2018, purchasers will be required to remit the GST directly to the ATO as part of the settlement process instead of the GST being managed by developers.

This proposal is only an announcement and not law. If you are affected by this change we will let you know more as soon as more details are released.

ATO Targets

Who has central management and control of a company?
The issue of who holds central management and control over a company is not always clear cut. Central management and control refers to the high-level decisions that set the company's general policies and determine the direction of its operations and the type of transactions it will enter into. This does not include the mere implementation or rubberstamping of decisions made by others.

Central management and control can be important in determining the residency status of a company. Control is not always taken to be where the Board holds its meetings but where the decisions are actually made; the test is substance over form. There have been several cases lately where companies incorporated overseas were determined to be residents of Australia for tax purposes because the overseas Boards merely rubber stamped the decisions made by a local representative.

Intercompany and related party transactions
If your business has any dealings with overseas suppliers, customers or owners then unfortunately the tax rules you need to deal with are likely to be more complex than normal. For example, dealings with related parties overseas would generally fall within the scope of the Australian transfer pricing rules, which are aimed at ensuring that the transactions are undertaken on arm's length terms. While these rules can be difficult to apply in practice, the ATO has recently introduced some simplified record keeping options that can potentially be used by small to medium businesses to comply with these rules.

Even when dealing with unrelated parties there are additional tax rules that might need to be considered to ensure that your business complies with its obligations under the Australian tax system.

Please let us know if you are planning to enter into any new agreements with overseas parties so that we can review the position for you.

Financial house-keeping

Before you roll-over your software…
Before rolling over your accounting software for the new financial year, make sure you:

- Prepare your financial year-end accounts. This way, any problems can be rectified and you have a 'clean slate' for the 2017-18 year. Once rolled over, the software cannot be amended.
- Do not perform a Payroll Year End function until you are sure that your payment summaries are correct and printed. Always perform a payroll back-up before you roll over the year.

Employee reporting

PAYG payment summaries
You need to provide all of your staff with their PAYG Payment Summary on or before 14 July 2017. This includes any staff that left your employment during the 2016-17 financial year.

If we prepare your Payment Summaries for you, please provide us with the data file from your accounting software.

The ATO imposes penalties for the late lodgement of PAYG Payment Summary Statements.

The annual PAYG Payment Summary Statement for the year ending 30 June 2017 needs to be lodged with the ATO on or before 14 August 2017. However, if we are preparing your Payment Summary for you and you only employ family members in your business (closely held employees), you may be eligible for an extension.

Reportable Fringe Benefits on PAYG Payment Summaries

Where you have provided fringe benefits to your employees in excess of $2,000, you need to report the FBT grossed-up amount on their PAYG Payment Summary. This is referred to as a 'Reportable Fringe Benefit' (RFB) amount and a label is included on the PAYG Payment Summary for this purpose.

Do you need to do a stocktake?

Businesses that buy and sell stock generally need to do a stocktake at the end of each financial year as the increase or decrease in the value of stock is included when calculating the taxable income of your business.

If your business has an aggregated turnover below $10 million you can use the simplified trading stock rules. Under these rules, you can choose not to conduct a stocktake for tax purposes if the difference in value between the opening value of your trading stock and a reasonable estimate of the closing value of trading stock at the end of the income year is less than $5,000. You will need to record how you determined the value of trading stock on hand.

If you do need to complete a stocktake, you can choose one of three methods to value trading stock:

- **Cost price** – all costs connected with the stock including freight, customs duty, and if manufacturing, labour and materials, plus a portion of fixed and variable factory overheads, etc.
- **Market selling value** - the current value of the stock you sell in the normal course of business (but not at a reduced value when you are forced to sell it).
- **Replacement value** - the price of a substantially similar replacement item in a normal market on the last day of the income year.

A different basis can be chosen for each class of stock or for individual items within a particular class of stock. This provides an opportunity to minimise the trading stock adjustment at year-end. There is no need to use the same method every year; you can choose the most tax effective option each year. The most obvious example is where the stock can be valued below its purchase price because of market conditions or damage that has occurred to the stock. This should give rise to a deduction even though the loss has not yet been incurred.

Tips to reduce your risks and minimise your tax

1. Declare dividends to pay any outstanding shareholder loan accounts
If your company has advanced funds to a shareholder or related party, paid expenses or allowed a shareholder or other related party to use assets owned by the company, then this can be treated as a taxable dividend. The regulators expect that top up tax (if any applies) should be paid by shareholders at their marginal tax rate once they have access to these profits. This is unless a complying loan agreement is in place.

If you have any shareholder loan accounts from prior years that were placed under complying loan agreements, the minimum loan repayments need to be made by 30 June 2017. It may be necessary for the company to declare dividends before 30 June 2017 to make these loan repayments.

The tax rules in this area can be extraordinarily complex and can lead to some very harsh tax outcomes. It is important to talk to us as soon as possible if you think your company has made payments or advanced funds to shareholders or related parties.

2. Directors' fees and employee bonuses
Any expected directors' fees and employee bonuses may be deductible for the 2016-17 financial year if you have 'definitely committed' to the payment of a quantified amount by 30 June 2017, even if the fee or bonus is paid to the employee or director after 30 June 2017.

You would generally be definitely committed to the payment by year-end if the directors pass a properly authorised resolution to make the payment by year-end. The employer should also notify the employee of their entitlement to the payment or bonus before year-end.

The accrued directors' fees and bonuses need to be paid within a reasonable time period after year.

3. Write-off bad debts
To be a bad debt, you need to have brought the income to account as assessable income, and given up all attempts to recover the debt. It needs to be written off your debtors' ledger by 30 June. If you don't maintain a debtors' ledger, a director's minute confirming the write-off is a good idea.

4. Review your asset register and scrap any obsolete plant
Check to see if obsolete plant and equipment is sitting on your depreciation schedule. Rather than depreciating a small amount each year, if the plant has become obsolete, scrap it and write it off before 30 June. Small business entities can choose to pool their assets and claim one deduction for each pool. This means you only have to do one calculation for the pool rather than for each asset.

5. Bring forward repairs, consumables, trade gifts or donations
To claim a deduction for the 2016-17 financial year, consider paying for any required repairs, replenishing consumable supplies, trade gifts or donations before 30 June.

6. Pay June quarter employee super contributions now
Pay June quarter super contributions this financial year if you want to claim a tax deduction in the current year. The next quarterly superannuation guarantee payment is due on 28 July 2017. However, some employers choose to make the payment early to bring forward the tax deduction instead of waiting another 12 months.

Don't forget yourself. Superannuation can be a great way to get tax relief and still build your personal wealth. Your personal or company sponsored contributions need to be received by the fund before 30 June to be deductible.

7. Realise any capital losses and reduce gains
Neutralise the tax effect of any capital gains you have made during the year by realising any capital losses – that is, sell the asset and lock in the capital loss. These need to be genuine transactions to be effective for tax purposes. It may be possible to contribute assets with unrealised losses to superannuation in order to do this.

8. Raise management fees between entities by June 30
Where management fees are charged between related entities, make sure that the charges have been raised by 30 June. Where management charges are made, make sure they are commercially reasonable and documentation is in place to support the transactions. If any transactions are undertaken with international related parties then the transfer pricing rules need to be considered and the ATO's documentation expectations will be much greater. This is an area under increased scrutiny.

What we need from you

This is a general list of what to have ready when we next meet with you:

- Accounts data file (MYOB, QuickBooks, access to Xero)
- Debtors & creditors reconciliation
- Stocktake if applicable (or, if your business is a Small Business Entity, use the simplified trading stock rules mentioned)
- 30 June bank statements on all relevant loan documents
- Documents on new assets bought or sold, including the date you entered the contract and the date the asset was first used or installed ready for use
- Payroll reconciliation
- Superannuation reconciliation
- Bank statements on operating accounts
- Cash book (if applicable)
- 30 June statements on any investment or operating accounts

And, if we are preparing your individual income tax return:

- PAYG Payment Summary
- Tax statements of managed investment funds
- Interest income from banks and building societies
- Dividend statements for dividends received
- For share sales or purchases, the purchase and sale contract notes
- For real estate sales or purchases, the solicitor's correspondence for the purchase and sale
- Rental property statements from real estate agent and details of other expenditure incurred
- Work related expenses
- Self-education expenses
- Travel expenses
- Donations to charities
- Health insurance and rebate entitlement
- Family Tax Benefits received
- Commonwealth assistance notices
- Medical Expenses (if these relate to disability aids, attendant care or aged care services)
- IAS statements or details of PAYG Instalments paid