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Tax Changes

July 2017

The 2017-18 Federal Budget contained a number of changes that are intended to apply from 1 July 2017:

Cuts to the deductions residential investment property owners can claim
The Budget contained a number of measures to reign in the level of deductions investment property owners can claim. These include:

Deducting travel expenses
From 1 July 2017, the Government intends to disallow tax deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property. If you have investment property interstate or overseas, this may change the frequency of your property inspections.

Depreciation deductions limited
residential investment properties purchased (or contracted) after 7:30pm, 9 May 2017 will have limited access to depreciation deductions. Investors who directly purchase plant and equipment for their residential investment property after 9 May 2017 will be able to claim depreciation deductions 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. Plant and equipment items are usually mechanical fixtures or those that can be 'easily' removed from a property such as dishwashers and ceiling fans.

Foreign residential property investors

We have seen a number of measures over the years restricting access to tax concessions for foreign investors, particularly for residential property investments. The recent Federal Budget goes one step further, restricting access to tax concessions, increasing taxes, and penalising investors who leave property vacant. Measures include:

- Charge for leaving properties vacant - Foreign owners of residential Australian property will incur a charge if their property is not occupied or genuinely available on the rental market for at least 6 months each year. The charge, which is expected to be at least $5,000, does not appear to apply to existing investments but only those made on or after Budget night, 7:30pm on 9 May 2017.

- Excluded from main residence exemption - Foreign and temporary residents will be excluded from the main residence exemption. The main residence exemption excludes private homes from capital gains tax (CGT). Existing properties held prior to 9 May will be grandfathered until 30 June 2019. However, it remains to be seen whether partial relief will be available to those who have been residents of Australia for part of the period they owned the property and whether this change will apply to Australian residents who were classified as a foreign resident for part of the ownership period.

- Increase in CGT withholding tax - When someone buys Australian real property (i.e., land and buildings) they are currently required to remit 10% of the purchase price directly to the ATO as part of the settlement process unless the vendor provides a certificate from the ATO indicating that they are an Australian resident. These rules do not currently apply if the property is worth less than $2 million. From 1 July 2017, the CGT withholding rate under these rules will increase by 2.5% to 12.5%. Also, the CGT withholding threshold for foreign tax residents will reduce from $2 million to $750,000, capturing a much wider pool of taxpayers and property transactions.

- Rules tighten for property purchased through companies or trusts - Australian property held through companies or trusts by non-residents or temporary residents is also being targeted by expanding the principal assets test to include associates. The move is to prevent foreign residents avoiding Australian CGT liabilities by splitting indirect interests in Australian real property.

- Level of foreign investment in developments capped - a 50% cap is being placed on foreign ownership in new developments.

High income earners

High income earners were relatively untouched by the Budget announcements this time around. The Temporary Debt Levy, which imposed an additional 2% tax on taxable income above $180,000, came into effect on 1 July 2014 for three years until 30 June 2017. The Budget did not change the legislated end date of this additional levy. The commentary on "tax breaks" for high income earners is simply referencing the end of this levy.

Medicare levy low-income threshold

The Medicare levy low-income thresholds for singles, families, and seniors and pensioners will increase to take into account of movements in the CPI.

	2016-17 Threshold
Singles	$21,655
Families	$36,541 plus $3,356 for each dependent child or student
Single seniors and pensioners	$34,244
Family threshold for seniors and pensioners	$47,670 plus $3,356 for each dependent child or student

Superannuation

Understand your total superannuation balance
From 1 July 2017, the concept of a total superannuation balance will apply. Your total superannuation balance is the total value of your accumulation and retirement phase interests, and any rollover amounts not included in those interests.

Your total balance is valued at 30 June each year and it is this value that may determine what you can and can't do during the following year. For example, if your total super balance is $1.6m or more at 30 June, you are restricted from making further non-concessional contributions in the next year as these contributions may create an excess contribution. And, if your balance is close to the $1.6m cap then the fund can only accept limited non-concessional contributions.

Introduction of a $1.6m transfer balance cap
From 1 July 2017, a $1.6m "transfer balance cap" applies to amounts in your tax-free pension accounts. The cap is essentially a limit on how much money you can transfer into or hold in a tax-free account. If you have $1.6m or more in a pension phase account, you will need to reduce the pension

value level back below the cap before 30 June 2017. If the excess amount is not removed from the pension phase account the amount will be subject to a transfer balance tax.

New superannuation contribution caps

The superannuation contributions caps will change from 1 July 2017.

	2016-17		**2017-18**	
Non-concessional contribution cap	$180,000		$100,000*	
Concessional contribution cap	<49 at 30 June 2016	$30,000	All ages	$25,000
	49+ at 30 June 2016	$35,000		

*subject to your total superannuation balance at 30 June 2017.

Review salary packaging arrangements

If you have entered into a salary sacrifice agreement to make concessional super contributions, you will need to review these agreements to ensure your concessional contributions do not exceed the new $25,000 cap from 1 July 2017.

Deductibility of super

The ability to claim a tax deduction for superannuation contributions will be broadened from 1 July 2017.

Currently, to claim a tax deduction for your 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 contractors and those who operate a business but also derive some employment income during the year.

Using super to save a deposit for first home owners

The Government has announced that from 1 July 2017, it intends to allow would be first home buyers to make voluntary contributions to superannuation that can then be withdrawn for a first home deposit, along with associated deemed earnings. While contributions made under the First Home Super Savers Scheme can be made from 1 July 2017, the first withdrawal cannot be made until at least 1 July 2018.

In practice, first home buyers will be able to save for a deposit by salary sacrificing into their superannuation fund over and above their normal compulsory superannuation contributions.

ATO focus area

Tax and travel related expenses

Claims for work related travel expenses are a major area of focus for the ATO. The larger the claim the more likely it is that the ATO will take a closer look. If you claim travel expenses, it’s important to ensure that you fully understand what’s required.

Every year, the Commissioner publishes the reasonable rates for travel expenses when travelling overnight in the course of employment activities – accommodation, food and drink, and incidental expenses. These rates are only applicable if you receive a genuine travel allowance for that travel. If claims fall within the ATO’s reasonable amounts, you can deduct travel allowance expenses within Australia without being required to keep full written evidence of all the expenses. But, even if you can rely on the substantiation exception, you may still be required to show the basis for determining the

amount of your claim - that is, you still might need to prove that you actually incurred the expenses, and the expenses were work related.

In order for accommodation and meals to qualify as a travel expense, you need to travel away from your home. The ATO takes that to mean that you're sleeping away from home - not just travelling for the day.

And, just because your employer pays you a travel or overtime meal allowance, this does not mean that you are automatically entitled to a deduction for travel expenses. You still need to actually incur the expenses. For example, if you stay overnight with your Aunt Martha, you can't claim the cost of the overnight stay.

Excessive self-education expenses
Normally, if you undertake study that is connected to your work you can claim the costs of that study as a tax deduction - assuming your employer has not already picked up your expenses. There is also no limit to the value of the deduction you can claim. While this all sounds great there are issues to consider before claiming your Harvard graduate degree, accommodation and flights as a self-education expense.

To be deductible, the study must be connected to the income you are earning (either to maintain or improve your specific skills or knowledge), or is likely to result in increased income from existing income earning activities. You cannot, for example, claim study expenses if the main purpose of undertaking the course is to open up a new income earning activity or for a personal research project not related to your work.

The ATO is more likely to target large self-education expenses. For anyone who has completed post graduate study you know that these expenses can ratchet up very quickly, particularly when you add in any other expenses such as books or travel. It's important to ensure that there is a clear connection between your current job or business activity and the expenses you are claiming before you claim them.

Minimising the cost of end of year compliance

Having your paperwork organised always makes life much easier. Preparing your end of year documents and information prior to coming to see us will save you time and money. This is a general list of what to have ready when we next meet with you.

- PAYG Payment Summary
- Interest income from banks and building societies
- Dividend statements for dividends received
- Tax statements of managed investment funds
- Rental property statements from real estate agent and details of other expenditure incurred
- 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
- Any expenses related to your work you have not claimed from your employer
- Self-education expenses
- Travel expenses
- Donations to charities
- Payments for income protection or sickness and accident insurance
- Health insurance and rebate entitlement
- Family Tax Benefits received
- Commonwealth assistance notices
- Medical Expenses (if they relate to disability aids, attendant care or aged care services)
- IAS statements or details of PAYG Instalments paid

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