

L.P.R. TAYLOR & ASSOCIATES PTY LTD

A.C.N. 009 394 334

CERTIFIED PRACTISING ACCOUNTANT

Quality Assured with CPA Australia

5 SAYER STREET, MIDLAND W.A. 6056

ABN 42 009 394 334



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approved under Professional
Standards Legislation.*

TELEPHONE: (08) 9274 6944

EMAIL ADDRESS: info@lprttaylor.com.au

FACSIMILE: (08) 9274 3011

WEBSITE: www.lprttaylor.com.au

2017 FINANCIAL YEAR END NEWSLETTER

The last 12 months went quick; by our reckoning this 2017 Year makes this Newsletter Number 33. As in the past in this Newsletter we seek to share with you some interesting and useful things ranging from simple Taxpayer compliance to Year-end tax planning tips.

We have brought forward our page on Estate Planning and Wills. We have assisted more than one client with Will administration over the last twelve months. Being an Executor is a task that brings with it complexity and responsibility. If you do find yourself as a functioning Executor and discover you need some assistance, no matter how great or small do not hesitate to give us a call.

The Federal Government delivered its Budget on the 9th May 2017. We have included in a brief column some of the taxation related matters within the 2017 Federal Budget. As you would expect there was both giving and taking. The Medicare levy is to be increased by 0.5% bringing it to 2.5% from 2019. There is to be a new 0.6% levy on bank liabilities (i.e. our money the bank holds) for the big 5 banks. As the banks will either pass it on to customers or harvest it from Shareholders it is fair to conclude that the impact of the taking has been spread far and wide. There was some good news for small business with the immediate \$20,000 asset write-off retained for another 12 months. There were two twiggings to Superannuation, both giving and not taking.

We also again remind you of our website (www.lprttaylor.com.au) where you can access this Newsletter, past Newsletters as well as other riveting information. As always we are looking forward to the new financial year with keenness and enthusiasm. Our wonderful team will be rested and up to strength and we are confident that we can meet your every need.

Be mindful the field of taxation is broad and complex. This Newsletter seeks to target just a few of the taxation/financial issues that could possibly affect you. Thus we hope that you read and enjoy this Newsletter but see it as only a very small part of a very large picture. Where we have your email address, you will have received this Newsletter electronically.

THE OLD CHESTNUTS: FOR THOSE REALLY BUSY PEOPLE WHO ONLY READ THE FIRST PAGE - SOME REMINDERS:

Claiming Motor vehicle Running Cents per kilometre method (Maximum 5,000km)

If you are using the cents per kilometre method (66 cents per km for all Motor vehicles) you need to be able to show how you arrived at your estimated number of business kilometres and have sufficient records identifying the purpose of the trips.

Motor vehicle Odometer readings

Odometer readings are required for ALL motor vehicles being claimed for tax purposes as at 30th June 2017.

Log book method – motor vehicles

For those of you who claim motor vehicle costs using a Log book, remember that you must retain your logbook and that it cannot be older than 5 years. Thus, if you have misplaced your logbook or if your business usage has changed or if it is older than 5 years, then it is time to prepare another covering at least 3 continuous months.

Stock take

Don't forget to do a physical stock take as at 30 June 2017 setting out the stock items and cost thereof (unless you are a Small Business Entity and your stock value movement has been less than \$5,000).

Bad debts

Don't forget that bad debts are not deductible unless they are physically written off before 30th June 2017 and the debt must have been brought to account by the taxpayer as assessable income.

Superannuation contributions and timing

The rate for Super Guarantee stays the same thus for the year commencing 1st July 2017 (i.e. the 2018 year) the employer obligation continues to be 9.5%. As a reminder these amounts need to be remitted to your employee's superannuation funds quarterly. To ensure that the final quarter complies and will qualify as a tax deduction for the 2016 / 2017 Financial Year; all contributions must actually be made by the 30th June 2017.

(E.g. a payment in cash/cheque or transfer of assets must be in the hands of the Fund Trustee and Direct Credits must actually be in the bank of the Trustee by the 30th June 2017). Employers – we urge you to get the Super dispatched from your systems and nested by the 30th June 2017. (To be safe we

suggest that you dispatch by Friday 16th June 2017 to ensure that your contribution is well and truly cleared by the 30th June 2017) (And do not be confused with the deadline to avoid late penalties for Super Guarantee Contributions, which this year is the 28th July 2017.)

2017 Year-end Tax Planning Thoughts

As the year end looms it is important to be aware of those year-end tax savings matters must be in place before you go to bed on the 30th June 2017 (falls on a Friday this year). Also be aware that the tax savings window of opportunity will not be there as you wake up on the 1st July 2017.)

Some things for your End of Year Checklist

Review fixed assets and their useful life to determine if there are any benefits in scrapping or trading in assets.

As part of our year-end work, we send out a prior year depreciation schedule. Take the time to review the schedule as we can often get you a tax deduction for any remaining book value of scrapped assets.

Capital Losses

Selling poor performing assets may enable you to bring forward a tax loss that can be offset against any capital gains made throughout the financial year.

Accept and write off Bad Debts

Painful as it is, some debts are going to be bad. A bad debt can be used to offset assessable income if they are written off before the 30th June and provided they have previously been included as assessable income.

Write off obsolete inventory

The year-end stock-take should involve a review of all inventories. Obsolete stock may be scrapped or valued below cost subject to **specific** guidelines.

Prepay some expenses

Small business entities and individuals may bring forward deductible expenses such as rent, repairs and office supplies that cover a period of no more than 12 months.

Trust Distribution Resolutions

For all of you Trustees of Discretionary Trusts, we have sent to you our suggested draft distribution resolutions. Ensure they are reviewed, signed and sent back to us (or safely tucked into your file) before the 30th June 2017.

Capital expenditure vs repairs

Without breaking the law, where you can, ensure that where Capital expenditures verses Repairs that you favour repairs. First step is to test if the asset was mended with the same materials and only taken back to its original condition. If yes then it is normally a repair and not capital. So review all spending during the year to identify all repaired items that are deductible. Remember capital purchases can often be depreciated.

Instant Asset write-off (Extended to 30th June 2018)

The upfront \$20,000 deduction claim where a small business purchases a business asset is still in place. The Federal Government has announced in its Budget 2017 that it has been extended for a further 12 months which ends 30th June 2018.

Review unpaid expenses (your business Creditors)

For those in Businesses who account on an accruals basis and have fallen behind in paying their rent and other expenses, you may still claim the arrears amount as a tax deduction.

Deferring some Income

Businesses that return income on a cash basis may benefit from deferring the receipt of the income until after the 30th June. This can be as simple as deferring the issue of invoices.

Have you moved from employment into employment business?

Small business entities starting up a business became entitled to immediately deduct a range of start up cost. The costs include legal, accounting advice, and government fees and charges.

And with some preplanning you can reduce/defer the pain of Capital Gains

Here are four simple strategies to help you minimise your CGT bill:

1. Use the Small business Concessions

Small business entities may be eligible to use a number of CGT concessions from rollovers to retirement exemptions. Often with the correct application of these exemptions, CGT can be reduced to nil.

2. Ensure you hold an asset for 12 months

Taxpayers (excluding companies) can discount a capital gain by 50 per cent if they hold the assets for more than 12 months.

3. Offset a capital loss against a capital gain

In your tax return we track any prior capital losses and offset any capital losses to a current year gain. Sometimes it is wise to sell a loss asset in the same year that you have a capital gain and use that capital loss against the gain realised in that year.

4. Defer Asset Sales

On the other hand if you expect to make your capital gains on the sale of an asset, consider deferring the disposal until after the 30th June. This is a particularly good idea if you know for next year you will have a capital gain loss, or even just a taxable income. For example, you plan to retire or take unpaid leave.

With CGT, Timing is everything (this is really important)

If you want to benefit from the 50% discount you must hold the asset for 12 months before disposal.

As part of our QA we always ask to see both the Offer & Acceptance (O & A) and the Settlement Statement. From the O & A we check the date the contract was signed as it is the date of the O & A and not the date of the Settlement which determines when disposal took place. If you signed the contract on the 28th June 2017 even if Settlement is 5 years later, you sold in the 2017 financial year (And any tax payable is payable associated with the 2017 tax return).

Some Tax tips for you property barrens

If you are not making capital gains in these slower economic times frames, at least you should be striving to reduce your income tax. Here are six tips:

1. Claim Travel Expenses

The cost of travelling to inspect a property, to carry out maintenance, undertake repairs or collect the rent can be claimed as a tax deduction (This will be disallowed from 1st July 2017).

2. Interest can be claimed

Interest on the money you borrowed to buy the property is deductible. Also, interest on any money that you borrowed to make renovations or repairs to the property, or furnish the property is also tax deductible.

3. Reducing PAYG Withholding

It is nice to get a tax refund at the end of the year. However, there is a mechanism with the ATO to vary the amount of PAYG tax your employer withholds from your wages over the year if you anticipate significant losses on your negatively geared rental property.

4. Prepaid Expenses

You might consider prepaying any expenditure, such as repair rates and levies to maximise the 2017 financial year deduction (Be mindful that any initial repairs to a rental house that has been just purchased are not deductible, but a depreciation claim is allowed).

5. Claiming Depreciation on Assets

The ATO accepts that certain assets will be a decline in value over time and you are entitled to claim this decline as an expense (depreciation) each year until the asset costs are written off. This applies to such assets as freestanding furniture, stoves, washing machines, fridges, and televisions.

If you enter into a buying contract of a rental house on or after 9th May 2017, you are not entitled to claim the depreciation on the existing assets that come with your new rental house.

For stand-alone assets costing less than \$300, you can claim the whole amount in the year of purchase.

Depreciating assets valued at less than \$1,000 can be grouped in a low-value asset pool and depreciated together.

6. Claiming Capital works deduction

If your pride and joy rental property was built after 1985, you may be able to claim capital works deductions (think of building depreciation) for the construction costs. Capital works deductions are income tax deductions that can be claimed for expensed such as:

- The original construction cost;
- The costs of additions such as adding a room, garage, patio or pergola;
- The cost of altering a building i.e. adding a room, garage, patio or pergola;
- The costs of capital improvements to the surrounding property; and
- Structural improvements such as a sealed driveway and retaining walls.

The deductions are normally spread over 25 of 40 years (i.e. flat rate of 4.0% or 2.5%) depending when the construction began. Remaining unclaimed amounts can be passed on to new owners, but claim can be made only when building is being rented.

Some reminders for Self-Managed Superannuation Fund (SMSF) -End of Financial Year (some important things)

The compliance requirements for SMSFs are extremely stringent. The sole purpose (goal) of the super fund is to provide for your retirement, and the ATO is determined to ensure that this purpose is not circumvented.

Withdrawing minimum pension (this is important)

Contrary to what many people fear, the Government does not want you to leave a big balance in your Superfund when you go to the next world. On the contrary, once you start to draw down on your pension, the percentage you need to draw out increases as you mature. For the 2017 year, this percentage is based on your 1st July 2016 members' balance and has been advised to you by us as part of our 30th June 2016 year end work.

If you have misplaced our advice or you are at all unsure as to what your minimum pension amount is please contact us. Once you are reminded of the minimum percentage, please do your sums and ensure that the amount you have withdrawn equals or exceeds the minimum requirements.

<u>Age</u>	<u>Standard Percentage Factor</u>
Under age 65	4%
65 - 74	5%
75 – 79	6%
80 – 84	7%
85 – 89	9%
90 – 94	11%
Age 95 and over	14%

Valuations of Fund Assets at 30th June 2017

The Trustee needs to ensure that all assets are valued/appraised as at 30th June. Listed Shares are easy but for other assets such as real estate, paintings, antiques, etc. it is a touch more tedious (But if need arises we can help you organise an online property valuation).

Individuals claiming a tax deduction for Super Contribution

If you are a self-employed contractor making a tax-deductible contribution to your superannuation fund, remember that you must also lodge a Notice of Intention to Claim a tax deduction with your Trustee before you lodge your Tax return.

Talking about Deductions: Basic Principles of claiming deduction under S 8.1 of the Income Tax Assessment Act 1997 (ITAA 1997)

(This part will help you understand later paragraphs concerning various claims)

The basis for recognising the bulk of expenditure amounts that can be claimed as a deduction lies in Sec 8.1 of the Income Assessment Act where it is provided that:

You can deduct from your assessable income any loss or outgoing to the extent that:

- (a) it is incurred in gaining or producing your assessable income; or
- (b) it is necessarily incurred in carrying on a business forum for the purpose of gaining or producing your assessable income.

With (a) & (b) above Sec 8.1 (1) ITAA hands you your the positive rights.

But with the other hand, Sec 8.1 (2) sets restrictions and limitations on these claiming rights. Sec 8.1 (2) denies a tax deduction for expenses of a capital nature, expenses that are a private ordered all domestic in nature, expenses incurred in deriving exempt or non-assessable income over where and neither provision of income tax legislation specifically denies the deduction.

There are some specific provisions of the income-tax acts (there are two that identify that specific claims, but it is fair to conclude that 95 percent of all deductions would fall under Sec 8.1 (1).

The tentacles of Big Bertha reach further afield each year

For people who pay their taxes, it is good that the ATO is getting better at detecting the tax evaders. There is a price to pay for living in a country as great as Australia and the more of us who pay our share, the lighter the load on each.

Australia's digital economy has and will continue to enjoy rapid expansion. In 2015 the sector had an estimated size of \$79 billion (5.1% of Australia GDP). By 2020, the digital economy will grow to \$139 billion or 7.3% of Australia GDP.

Much like militarily hardware that develops most rapidly during times of war, as our National debt threatens to engulf us, the ATO has developed advanced methodologies to ensure those operating in the digital economy are meeting their taxation obligations.

At the core of the digital weaponry is data gathering and matching. The ATO already gathers information for businesses, and Big Bertha alerts the ATO where a particular business

reflects a major discrepancy from the benchmark/norm. Further, where the information now gathered is required to be deleted after only 12 months, the ATO has applied to the Information Commissioner for permission to hold collected data for five years.

The ATO has also launched additional data matching programs which we have outlined below:

- 1) Internet-based selling activities and other unreported transactions.
 - eBay, Gumtree and the like are now or soon will be required to report online data where the taxpayer has sold goods to a value of \$12,000 or greater. This online activity will be matched to the taxpayer's tax returns to ensure the truth it is being told.
- 2) Credit and Debit Card information will be matched.
 - All the major banks and credit card providers will be required to provide details of card payments received by businesses through their merchant accounts. The amount and quantity of the transactions processed will be electronically matched by the ATO to identify any non-compliance.
- 3) Share registries will be tapped for info.
 - The likes of Computer Share, ASX, and Link Market, etc. will be asked to provide an estimated 61 million share transactions and full identification details of 3.3 million individuals. All the info will be processed by Big Bertha and compared to what you disclosed to the ATO in your income tax return.
- 4) Super Stream (employers paying via a Clearing House).
 - Employers no longer pay superannuation direct to employees superannuation fund. Rather the superannuation is paid from a clearing house, which in turn sends the money and a report to the ATO. The Superfund also reports to the ATO. It is an easier system for the employer, but the real beneficiary is the ATO as they no longer rely on the accuracy of the employer's records to be ascertained the 9.5% super is being paid.
- 5) The ATO Single Touch Payroll
 - This is a new system that provides the ATO with real-time payroll information as the employer attends their payroll system and pays wages. In short, the full details of the transaction are fed directly into the ATO. Again it is sold as a means of making the employer's life easier. And it does, but the real beneficiary will be the ATO as it is no longer relies solely on the employer to provide the employee's wages/earnings details at the end of the financial year.

ATO Empire strikes back at Taxpayers over claiming work related expenses

It seemed such a great idea to create an ATO online portal and allow individuals to enter their tax data and allow Big Bertha to assess the return.

Unfortunately, some taxpayers worked out that there is a direct link between the work-related expenses (WRE) they claim and the amount of their refund. As you would guess the rules of substantiation were ignored by some and the claiming of WRE expenses exploded. WRE normally includes work related car and travel expenses, work clothing, laundry and dry-cleaning expenses, self-education, work-related tools, and equipment.

According to the ATO, in the 2015 year \$8.4 million taxpayers claimed a total of \$21.3 billion. Doing the maths, the claim averages \$2,500 per taxpayer. The maximum and individual can claim without receipts is \$300, needless to say Big Bertha set off the alarm.

In reaction, the ATO conducted 450,000 reviews and audits. In doing so it made adjustments of \$1.1 billion. Again doing the maths, this works out to be an average of tax recovered of \$2,400 per individual.

The ATO has learned its lesson and confirms that every tax return is scrutinised using sophisticated electronic tools and data analysis.

When the computer system detects the anomaly, the ATO's first query will be to the employer in asking whether or not (given the employee's job role) the claim is reasonable.

Looking back to my employee days, the last thing I would have wanted was my employer to think I was lodging dodgy tax returns.

Why do we ask so many questions?

The paragraphs above deal with a tax return lodged by an individual Taxpayer. For their dodgy claims, the individual has to pay the correct tax, pay interest and a "careless" penalty.

For Tax Agents like us, we get sent to the Head Master's Office (Tax Practitioners Board), which may result in sanctions including, education orders, penalties and/or termination of our registration.

If we survive the above assault, the ATO has developed a risk (being dodgy) profile for tax agent's practices. This software allows the ATO to look at all of our clients as a whole and if we exceed the benchmark for reasonable calls we get a "please explain" contact.

Keeping you under the Radar:

You are entitled to claim WRE, and we encourage you to do so, but just keep in mind and ensure the following:

- That you have incurred the expenses and it has not been reimbursed by your tax employer;
- The expense is directly related to your work-related earnings activities; and

- You hold the appropriate records to substantiate/evidence the expense.
- For Example, with internet and telephone usage costs, you must be able to produce a 12 weeks log book recording work-related usage every year. Failing that, for telephone you need to identify those calls which were work-related.

Deductions for Travel Expenses by employees

Many of us travel in our job roles and incur expenses as a consequence. We get many queries over the year as to the tax deductibility of travel expenses. To assist your understanding, we have made some notes below:

1. No Travel allowance thus you need to substantiate

- Where you incur travel costs as an employee but are not paid a travel allowance, you can still claim the expenses under Sec 8(1), but you will need to substantiate the claim with written evidence (invoices, receipts, etc.); and
- If you travel away from home for six consecutive nights or more, you need to keep a travel diary.

2. You do not have to substantiate your expenditure where you receive a Travel allowance provided:

- Where you receive a "bona fide" travel allowance for food, drink, and accommodation;
- The travel allowance is paid to cover a **specific trip** undertaken or to be undertaken;
- The deduction does not exceed a predetermined reasonable allowance; and
- If the allowance is for an overseas journey, there is an added obligation. Put simply, food, drink, and incidentals do not need to be substantiated, but accommodation does.

Then there is the fine print

- a) The amount must be for a bona fide travel allowance (i.e., an amount that could reasonably be expected to cover the cost associated with the journey and not say just \$5.00).
- b) The allowance must be paid for a specific trip that involves the employee traveling overnight for work (it is incorrectly believed that the mere receipt of an allowance is sufficient to deduct the travel expenses (this is not correct).
- c) The expenses must be incurred (the money needs to have been spent) and the employee cannot simply claim expenses equal to the allowance.
- d) The employee may be required to show the nexus between the journey, the expenses and earning income.

Business Travel expenses

The self-employed have not been overlooked.

The cost of travel between home and work

The cost of travel between home and work is not normally a deductible expense. The reason is simple, and again it lies in Sec 8 (1). As you have yet to commence earning until you get to your place of work, the cost cannot be said to have been "incurred in gaining or producing your assessable income". But like all good tax law there are exceptions:

The itinerant worker:

The cost of the journey between home and work can be deductible if the work is itinerant in nature, in that involves traveling from place to place. The characteristics that one would look for include the following:

- Travel is a fundamental part of your work;
- You have web of places in your regular work;
- You have continual travel from one location to another;
- You are confronted with the uncertainty of your daily location;
- Your home is your base of operations;
- You have a requirement to carry bulky equipment; and
- You are paid an allowance in recognition of your need to travel to different places of work.

You carry bulky equipment to and from work:

The cost of travel between home and work where you carry bulky, heavy equipment will be allowed; provided that **all** of the following conditions are met:

- The equipment is required by you on that particular day;
- It must be essential that you transport the equipment (i.e. and not just a matter of personal choice or convenience);
- The equipment is so bulky/heavy you need to use your vehicle (i.e. not practical to put on the bus); and
- There is not a secure place to lock it away at your place of work.

Conclusions on sec 8 (1) and Deductions

You can see why care needs to be taken and questions asked when we prepare tax returns. The devil truly is, in the detail.

The fate of the 2016 Superannuation Changes

You will recall that the Turnbull Government in its 2016 Budget (May 2016) boldly (or foolishly) proposed legislation that would see some major changes to superannuation. Well some of them made the passage through Parliament (23rd November 2016) and some did not. Of those that did, some changes increased the coin in government coffers, and some decreased the coffers. We have summarised the changes below:

Those changes in favour of Superannuation Members (us)

Personal Deductions and the 10% Rule

A long-standing rule has been that one could not claim a tax deduction for personal contributions where salary and wages made up more than 10% of one's Taxable Income.

From the 1st July 2017, the restriction will be removed, and the personal contributions can be claimed to the all-encompassing cap of \$25,000.

Low Income Super Tax Offset Contribution (LISTO)

The name has been changed just a touch, but the nature of the contribution is the same. From the 1st July 2017, eligible individuals, with an Adjusted Taxable Income up to \$37,000 will receive a LISTO (Government) Contribution to their super

fund. The LISTO contribution will be equal to 15% of their total concessional (before tax) Super contribution for an income year but capped at \$500.

Better deal for the Spouse Tax Offset (Max \$540.00)

Currently, an individual can claim a tax offset up to a maximum of \$540 for a contribution made to a Spouse's Eligible Superfund Fund, providing your spouse's Assessable Income (plus Fringe Benefits and Employer contributions) are between \$10,800 and \$13,800. This quite low-income range has prevented many from claiming the offset.

So the Government has legislated to extend the income range somewhat to \$37,000 and \$40,000. And what will happen is that if your spouse for whom you contribute has an income below \$37,000, you will be able to claim the whole \$540. If her/his adjusted income is greater than \$37,000, then the \$540 will be reduced such that none of the \$540 will be receivable if the spouse's income exceeds \$40,000.

Right to carry forward the Concessional Cap

From the 1st July 2017, the Concessional contribution cap for all ages will be \$25,000 per year. Currently, if you do not claim all of the Cap in a particular year, the unused portion is lost. That outcome will change from the 1st July 2018 in that (providing your accumulated member's balance is below \$500,000) you will be able to carry forward the unused portion of the contribution caps up to 5 years on a rolling basis. This is a great change especially for females who often step back from the workforce to have and raise children.

Then there were changes that worked against Members

The \$1.6m Cap for Members in the Pension phase

Currently, if you are in or if you enter Pension phase, the income earned from the capital/assets within the fund that is paying the pension is not subject to the 15% tax. Further, when you receive the pension money from the fund, that pension income is not taxable in your hands.

From the 1st July 2017, that cozy world will change a bit in that, only the earnings on the member's capital balance that is below \$1.6m will continue to receive the favourable treatment of having no tax on its earnings. For any earnings on a balance greater than \$1.6m, there will be a tax of 15% payable by the Superfund itself.

Some good news: the after-tax income which will come out in the form of a member's pension will still not be subject to tax in your hands.

Division 293: Safe Haven threshold reduced from \$300K to \$250K (the holes in the tax net just got smaller)

Some of you in the past would have received a special letter from Big Bertha, requesting an extra 15% tax on the contributions that have been made to your Superannuation fund.

Currently, the level of income that triggers this additional tax of 15% is \$300,000. (i.e., making a total "contribution tax" of 30%). From the 1st July 2017, the triggering level will be lowered to \$250,000.

Concessional contribution: we will all be equal and will be able to carry forward unused portion

Currently (to the 30th June 2017) the Concessional Contribution cap for those over 50 years of age is \$35,000, and for the younger folk under age 50, it is \$30,000. From the 1st July 2017, the Concessional Cap will be \$25,000 for all ages.

Trying to be positive: we remind you that over a five year period you can drag the unused amounts of the Concessional Cap forward. The outcome is that in some years you will be able to contribute more than \$25,000 and receive your tax deduction (but the fine print is that your member's balance must be less than \$500,000).

Non-concessional (non-deductible Contributions)

It is the non-concessional contributions that do the heavy lifting in building superannuation balances. They do not attract the Contribution Tax of 15% nor are they tax deductible to the contributor.

The current non-concessional contribution cap is now \$180k per year. From the 1st July 2017, the \$180K cap will reduce to \$100k.

But there is more:

The \$1.6m Cap plays a part in your current decision making concerning the contribution cap. Put simply; you cannot make any Non-concessional contributions to your fund where your member's balance is greater than or equal to \$1.6M after the 1st July 2017.

If you are under 65 and your balance so allows (i.e., under the \$1.6m), you will be able to group and contribute some part of three lots of \$100,000 in one year.

Transition to Retirement Income Streams (TTRP)

Currently, the TTRP is very attractive for those who qualify because you can salary sacrifice into your super fund pretax wages and pay only the 15% "Contribution Tax." On the other hand, you can draw a tax-free pension and the earnings within the fund that produce that pension, are also free of tax.

The transition pension survived the May 2016 Budget but was not totally unscathed, rather from the 1st July 2017 income earned within the pension component (like the accumulation component) will be subject to tax at 15% where it was once tax-free.

So what should you do between now and the 30th June 2017

Now that you know which changes made it through the legislative gauntlet, you need to think about what should/could be done (if anything) before the 30th June 2017. We have set out some of our thoughts below:

What to do with the Transition to Retirement Pension (TTRP)

Again what the change means is that, from the 1st July 2017, although the pension will still be non-taxable in the Member's hands: it will be out of earnings within the Superfund that have been taxed at the rate of 15%.

For you to think about: Unless you are using the TTRP to meet your living needs you may consider ceasing the TTRP as from the 30th June 2017 and as an alternative simply leaving the money in the fund to continue to grow your balance for your ultimate retirement.

From the 1st July 2017, if you are continuing with the TTRP make sure you're all up concessional contributions are reset not to exceed \$25,000.

Maximising the Concessional (Deductible) Contributions to the Limit of the Cap

Currently, the Concessional Cap is \$35,000 if you are aged greater than 50 and \$30,000 if you are aged less than 50.

As from the 1st July 2017, we will all be limited to a maximum Concessional cap of \$25,000. You may wish to ensure that for the year ended 30th June 2017 you fully utilise the more generous existing cap.

Using your full Concessional Cap up to \$180,000

Remembering that from the 1st July 2017, there will be a reduction of the Non-concessional Cap from \$180,000 to \$100,000 per annum.

If you have inherited some money, sold a property, etc. and are cashed up, you may wish to ensure that you maximise the contribution to the full \$180,000 for the year ended 30th June 2017.

Bringing forwards the Non-concessional Caps

As of the 1st July 2017, the non-concessional cap will reduce from \$180,000 per annum to \$100,000 per annum. The three-year contribution grouping together will still be possible, but the sums will be for a total of \$300,000 and not \$540,000 (and where your balance is already \$1.6m you cannot add any non-concessional contributions).

One off opportunity to contribute \$540,000

Pre 1st July 2017, a one-off opportunity now exists to increase your balance with a non-concessional contribution even though the balance now exceeds \$1.6m. Illustrating by example, take Mr. Jones who is now 64 years old with a super balance of \$2.0m. Mr. Jones has never triggered the brought forward rules (i.e., never grouped three years together).

- If done before the 1st July 2017, Mr. Jones can contribute \$540k (i.e., \$180k times 3) into his super fund (even though that will take his balance over the \$1.6m);
- But it must be done before the 1st July 2017; and
- It must be done before he reaches 65 to avoid the work test.
- Even though the balance is \$2.54m, only \$1.6m will earn it income tax-free within the pension account.

2016/ 2017 Federal Budget (9th May 2017)

The 2017 Budget was presented to the people touching on a wide and diverse range of issues. As always the Budget received varied and mixed reactions. Our focus being Superannuation and Tax was kept steady as she goes. We cover some of the more interesting items that will impact on you below:

- The big 5 banks are going to get a new levy payable on customer deposits greater than \$250,000 (bank liabilities) of 0.6%. The reason that it gets mentioned

in our Newsletter is that one way or the other we will pay that levy.

- Small business with a turnover less than \$10m will continue to be able to write off appropriate asset acquisition expenditure of up to \$20,000 for another year.
- For you folks who travel to Broome to inspect your rental house (enjoy Cable Beach at the same time) and claim a tax deduction for the cost of the journey—that deduction has been brought to an end from 1st July 2017.
- On qualifying rental properties, depreciation on building, plant & equipment can be claimed against rental income. Pre-budget, the right to claim the depreciation could be passed on to the next investor. From Budget night the next investor does not inherit the ongoing claim. Rather the Depreciation is limited to only those new assets purchased by that subsequent investor.
- For people saving to buy your first nest, you will be able to salary sacrifice (i.e. pre-tax) \$30,000 (maximum \$15,000 per year) into a special compartment of your Superfund via the First Home Super Save Scheme. The tax rate going in on the contributions and the earnings will be only 15%. The accumulated amount can be withdrawn as part of the deposit. For a husband and wife that is a combined amount of \$60,000.
- For folks who are over 65 and sell their house, \$300,000 can be contributed as a non-concessional contribution to a superfund. This contribution can be made even if the balance is already at the \$1.6m level.
- National Disability Insurance Scheme costs are unfunded over the next 10 years to the tune of \$55.7B. To fill the funding gap, we will see the Medicare levy increased from 2% to 2.5% from 1st July 2019. Putting a number on it, if you are single, earning \$100,000 a year, you will pay an extra \$500.00 per year on the levy.
- Some good news--The Budget repair levy of 1% payable by the high-income earners (over \$180k) will come to an end.

This section has been left in from last year as both Death and taxes are certain

Matter of Death and Wills

Estate Planning

Part of your life planning should include death planning. Death planning is more comfortably defined as Estate Planning. A standard stock tool of Estate Planning is the Will. To capture your interest in this topic, we have included some contemplation:

- For something as certain as death we plan for it so badly.
- Live your life like you will never die, but plan as though you will pass tomorrow.

- Part of your role as a parent is to leave a united family, to die without a Will is to invite family conflict and disintegration.
- Dying is something you need to do right the first time.
- Your Will allows you to communicate from the grave, why miss the opportunity?

As you would guess, having had close to 40 years in this profession, I have witnessed some unpleasant family outcomes in estate administration for which there was no need. I thought I would share of some tips with you to help ensure your final message from the grave is both valid and clear.

- It is best that you Will be drafted by a suitably qualified Solicitor, but it need not be.
- The Will must appoint an Executor
- The Will must dispose of your property
- You must have the capacity to make a Will which includes being at least 18 years of age and have the mental capacity to make a Will (there is no point in making a Will once you been diagnosed with Dementia).
- You must demonstrate your intention to make the Will, and this intention needs to be evidenced by your compliance with the formalities in the Wills Act (1970).
- The Will must be in writing and have been witnessed in your presence by two witnesses who in turn sign the Will in your presence.
- Remember the making of a new Will revokes any earlier Will.
- Getting married or divorced after making your Will automatically revokes a Will.
- You can use your Will to establish a Testamentary Trust, where an entitlement can be held by a Trustee until a beneficiary of your Estate becomes entitled (say reaches the age of 18).

To conclude on this, make it your new financial year resolution to make a Will. If you already have a Will revisit it to make sure it reflects your current intentions.

Additional Estate Planning Documents

Your Will “kicks in” on your death. Often there is a period in one's life between being mentally and physically fully functional and our demise. During this period, some useful documents can make life much easier for not only yourself but also those who will care for you.

The Enduring Power of Attorney: this document allows your Attorney the authority to make legal and financial decisions on your behalf even after you have lost the capacity to make these decisions regarding your own affairs.

Enduring Power of Guardianship: this document grants the Guardian the authority to make personal, lifestyle and treatment decisions on your behalf for any period in which you are incapacitated.

Advance Health Directive: this document contains treatment decisions in respect of your future treatment. This document can be very specific regarding the types of medical treatment and care to which a person does or does not consent. It is

interesting to note that when it comes into play, it overrides the Enduring Power of Attorney and Guardianship.

Mutual Wills Agreement: this agreement is a contract where a couple have agreed not to revoke their Wills or not to substantially alter the way in which they distribute their joint assets. This agreement is useful in the case of blended families and stipulates that the survivor has use and enjoyment of the joint assets during their life but on their death, must deal with the joint assets as agreed. As a safeguard, once the first party dies the mutual Wills agreement becomes irrevocable.

Binding Death Benefit Nomination: the money you have in superannuation is an asset which is outside of your estate. A Binding Death Benefit Nomination directs that your death benefits be paid to a person of your choice or to your estate to be dealt with in accordance with your Will.

Companies: Division 7A Loans and Deemed Dividends (this one is important and is included every year lest you forget!)

Where you carry on your business in a company structure, you enjoy a 30% company tax rate (from 1st July 2017 to be 27.5% for Small Business Entity). As long as you leave the net after-tax profits in the company, there is no further tax to pay. If you draw the money out as a franked dividend, then it comes with a 27.5% tax credit and you pay the difference between the 27.5% and whatever your tax rate is. If your tax rate is less than 27.5%, then you get a refund of some of the tax the company has paid. All good. But if you just reach in and take those company profits without recognising the amount as a dividend, then you are in effect borrowing company funds without having paid any extra tax.

Thus before you take this money, you need to ensure that you have in place a complying loan agreement where you agree to pay the money back to the company. In the absence of that complying loan agreement, you are deemed to have taken an unfranked dividend, and you have lost your 27.5% Franking Credit (i.e. the 27.5% tax the company has paid). The moral of the story is company profits are not your profits and should only ever be taken as a Dividend (preferably franked), as wages or as borrowings under a properly structured loan agreement. If you have broken the rules, contact us, and we will assist to make it right.

CHECKLIST & HOW CAN WE HELP YOU

There was so much to tell and so little space to tell it. So by popular demand, we included an extra page for the checklist. We also set out a new page on the reverse of the checklist, headed “HOW CAN WE HELP YOU”.

If you wake up in the middle of night in cold sweat and say to yourself “I wish I could talk to someone about this commercial problem”, jot it down on the form and share it with us.

FINANCIAL PLANNING

There are items in this Newsletter that are of the nature of Financial Planning but none of which should be seen other than as General Advice. Just for completion and compliance the following should be noted;

Lane Taylor is a Director of L.P.R. Taylor Financial Services Pty Ltd of 5 Sayer Street, Midland WA 6056 and is an Individual Authorised Representative (No. 346050) of Dover Financial Advisers Pty Ltd (AFSL No. 307248) of 71 Tulip St, Cheltenham VIC 3192

CONCLUSION

This Newsletter as with the operation of the office itself is made possible by the combined efforts the whole Team. For those of you who either by reading or skimming this newsletter have got to the end, well done. Thank you for sharing it with us. If there is anything on which you would like further information, then please contact us either by email: info@lprtaylor.com.au or by telephone: (08) 9274 6944. Finally, copies of earlier Newsletters are on our Website at www.lprtaylor.com.au.

Please note this Newsletter should be taken as a guide only, and none of the comments contained in this letter are intended to be taken as advice, and this Newsletter is for the exclusive use of the clients of L.P.R Taylor & Associates Pty Ltd.

Kind regards,

Lane Taylor and the team

HOW CAN WE HELP YOU

Complete this form and fax / email it back to us. Our fax number is (08) 9274 3011 and email address is info@lprtaylor.com.au

Name: _____ Company: _____

Telephone: _____ Email: _____

ESTABLISH YOUR OWN BUSINESS

Business Structure (i.e. Sole Trader / Partnership / Company / Trust)

- Explain the difference of each business structure.
- Analyse the advantage and disadvantage of each structure.
- Help you to choose the best structure that suits you.
- Provide you guidance with your business plan.

Business Registration

- Company Formation and prepare all required documents that the ASIC needs.
- Business Name Registration.
- Apply for A.B.N. & T.F.N.
- GST Registration.
- Fringe Benefits Tax Registration.
- Payroll Tax Registration.

Buying an Existing Business

- Analyse Seller's Financial Statements.
- Valuation of Goodwill.
- Calculate the amount of Duty.
- Valuation of Inventory.

Other Services

- Preparing an effective business plan.
- Prepare financial reports for bank.
- Prepare budget for cash flow statement.
- Provide support on accounting systems.
- Explain what your tax and legal obligations are (including Workers Compensation Insurance, Wages, Superannuation, PAYG Withholding etc.)

I would like further information and advice on the following: (please tick)

- How I can improve my business performance and profitability.
 - Better strategic planning for the future of my business.
 - How your Company Secretarial services can offer me peace of mind.
 - Making my estate tax-efficient for my heirs.
 - Tax-efficient investments and savings.
 - How will the Government Budget affect me / my business?
 - Minimising capital gains tax legally.
 - Retirement planning.
 - I would like to know more about the following areas:
-
-

PRE-APPOINTMENT CHECKLIST 2016/2017

INDIVIDUAL DETAILS:

- PAYG Payment Summaries
- PAYG Payment Summary - Employment Termination Payment
- PAYG Payment Summary – Superannuation Income Stream / Lump Sum
- Pensions & Other Social Security Certificates / Documentation
- Bank Statements / Passbooks (*Detailing Interest Earned*)
- Dividend and Re-investment Statements
- Partnership & Trusts Taxable Distribution Statements
- Share Trading Statements (*i.e. Buy & Sell Contracts*)
- Rental Property Income & Expenses
- Rental Property Depreciation Report
- Buying or Selling Contract / Final Settlement Statements/ Offer & Acceptance Forms Re; Purchase / Sale of Property
- Details of Personal Property Sold (if acquired for \$10,000 or more)
E.g. Antiques Jewelry Art etc.
- Receipts for Work-Related Expenses
- Motor Vehicle Logbook
- Travel Diary / Business / Private Use Diary
- Telephone/ Internet Logbook (12 weeks every year)
- Receipts for Donations
- Medical Receipts –We know this in on the way out for all but some
(Note the threshold and rate now varies- Robbing the rich stuff)
- Private Health Insurance Statement
- Superannuation Contribution Documentations
- Zone & Overseas Forces Rebate
Location: _____

No. of Days: _____
- Medicare Exemption / Reduction Certificate
- HECS/HELP Statement
- Family Information (Spouse's & Child's - Name, TFN, DOB & Taxable Income)

BUSINESS DETAILS:

- Cashbook / Computer Disks / USB (e.g. MYOB or QuickBooks file)
- Cheque Butts & Deposit Books
- Summary of Cash Income Not Banked
- Summary of Cash Expenses Not Recorded in accounts
- Bank Statements
- Bank Reconciliation Statements
- Loan Statements
- Loan, Lease, Chattel Mortgage & Hire Purchase Agreements
- Details of Income Invoiced, but not received at 30th June (Debtors)
- Details of Expenses Invoiced, but not yet paid at 30th June (Creditors)
- Valuation of Stock at 30th June
- Details of Livestock Numbers:
Sales: _____
Killed (Rations): _____
Deaths: _____
Closing Stock: _____
Purchases: _____
Births: _____
- PAYG Payment Summaries
- PAYG Payment Summary Reconciliation
- Superannuation Summary
- Motor Vehicle Details & Logbook(s)
- Motor Vehicle Odometer Readings at 31st March & 30th June
- Buying or Selling Contract / Final Settlement Statements/ Offer & Acceptance Forms Re: Purchase/Sale of Business
- Personal Services Income (if applicable)
- Annual GST Returns
- Insurance Invoices & Statements