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

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

These include:

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

- Limited recourse borrowing arrangement reporting
- Transitional capital gains tax relief for super funds
- Increasing access to company losses.

Key dates for Tax Time

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

However, tax returns lodged on paper could take up to 50 business days from receipt to be finalised. The ATO encourages you to lodge electronically if at all possible.

Go to this [timeline to view the key dates](#) for Tax Time 2017.

What's new for small businesses

i) Tax Concessions

Tax concession rules for small businesses have changed. The changes are effective from 1 July 2016, and will apply from your 2017 tax return.

Find out about:

- [Expanded access to small business concessions](#)
- [Increased small business income tax offset](#)
- [Company tax rate cut for small businesses](#)
- [Simpler depreciation rules – instant asset write-off](#)

a) Expanded access to small business concessions

More businesses are now eligible for most small business tax concessions. From 1 July 2016, a range of small business tax concessions became available to all businesses with turnover less than \$10 million (the turnover threshold). Previously the turnover threshold was \$2 million.

The \$10 million turnover threshold applies to most concessions, except for:

- the small business income tax offset, which has a \$5 million turnover threshold from 1 July 2016
- capital gains tax (CGT) concessions, which continue to have a \$2 million turnover threshold.

The turnover threshold for fringe benefits tax (FBT) concessions increased to \$10 million from 1 April 2017.

b) Increased small business income tax offset

You can claim the small business income tax offset if you are a small business sole trader, or have a share of net small business income from a partnership or trust.

From the 2016–17 income year, the small business income tax offset:

- increased to 8%, with a limit of \$1,000 each year
- applies to small businesses with turnover less than \$5 million.

The tax offset increases to 10% in 2024–25, to 13% in 2025–26 and to 16% from the 2026–27 income year. The amount of your offset is based on amounts shown in your tax return.

c) Company tax rate cut for small businesses

For the 2016–17 income year, the company tax rate for small businesses decreased to 27.5%. Companies with turnover less than \$10 million are eligible for this rate.

The maximum franking credit that can be allocated to a frankable distribution has also been reduced to 27.5% for these companies – in line with the company tax rate. The reduced company tax rate of 27.5% will progressively apply to companies with turnover less than \$50 million by the 2018–19 income year. From 2024–25, the rate will reduce each year until it is 25% by 2026–27.

If you lodged your 2016–17 company tax return early:

- If your turnover is less than \$2 million, the ATO will amend your return for you and apply the lower tax rate.
- If your turnover is from \$2 million to less than \$10 million, you will need to review your tax return and lodge an amendment if required.

A Bill was tabled on 11 May 2017 to gradually extend the reduced company tax rate to all companies.

Tax rate cuts – “not meant to apply to passive investment companies”

On 4 July 2017, the Minister for Revenue and Financial Services, Ms Kelly O’Dwyer MP, issued a statement on the [tax rate cuts for small companies](#).

Minister O’Dwyer said, “Reports today that the ATO has broadened the interpretation of company tax cuts are premature ... however, the policy decision made by the Government to cut the tax rate for small companies was not meant to apply to passive investment companies.”

Minister O’Dwyer said the ATO has issued a draft ruling and will in due course provide other guidance.

d) Instant asset write-off extension

Australia’s 3.2 million small businesses can continue to purchase equipment up to \$20,000 and write it off immediately thanks to legislation passed by the Senate on 15 June 2017, advised Small Business Minister Michael McCormack recently. The period in which small business entities can access the instant asset write-off has been extended by 12 months to 30 June 2018. It was originally intended to end on 30 June 2017.

The Small Business Minister said recent tax cuts for small business – which delivered a 27.5% tax rate – also redefined ‘small business’, meaning more Australian businesses are now eligible for the instant asset write-off.

More businesses are now eligible to buy equipment (new or second hand) up to \$20,000 and write it off immediately after this legislation passed the Senate. Multiple claims can be made under the program.

‘Small business’ has also been redefined for tax purposes as having a turnover less than \$10 million, up from \$2 million.

For more information on support for small business, please visit the [Small business website](#).

To do!

If you are not clear about how the recent changes for small businesses apply to you or your business, you should speak with your tax agent or adviser.

Taking care of business

The ATO is encouraging small businesses to get a head start on the new financial year by taking care of business now. To find out how to stay informed, get on top of records, utilise the ATO's tools and products (eg Simpler BAS), look after employees and know where to get help, see the ATO's [media release](#).

ATO protecting honest business

The ATO acknowledges that most business owners are honest, but that there are some businesses that operate in the cash and hidden economy, gaining an unfair advantage over those who declare their income and do the right thing.

The ATO has been running information sessions on this. More information about the ATO's work focusing on 'cash-only' businesses, including visiting these businesses and what the ATO will be doing where these businesses are not compliant can be found on the [ATO's website](#).

GST

i) Simpler BAS

From 1 July 2017, small businesses now have less GST information to report on their business activity statement (BAS). This will be the default GST reporting method for small businesses with a GST turnover of less than \$10 million.

The ATO automatically transitioned eligible small business' GST reporting methods to Simpler BAS from 1 July 2017.

ii) GST on low value imported goods – Summary of reforms

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

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

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

In summary, the reforms:

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

More information on the new [GST on low value imported goods](#) can be found on the ATO website.

Treasurer's press release on GST low value goods

The Treasurer, the Hon Scott Morrison MP, released a statement following the passage of the *Treasury Laws Amendment (GST Low Value Goods) Act 2017* by the Parliament on 21 June 2017.

The Treasurer said, "Turnbull Government laws will level the playing field for Australian businesses by applying the GST to goods costing \$1,000 or less supplied from offshore to Australian consumers from 1 July 2018."

Using a vendor collection model, the law will require overseas suppliers and online marketplaces such as Amazon and eBay with an Australian GST turnover of \$75,000 or more to account for GST on sales of low value goods to consumers in Australia.

iii) Buy services or digital products from overseas?

From 1 July 2017, GST will apply to imported services and digital products.

Australian GST-registered business can avoid GST on these purchases from a non-resident supplier if they provide their ABN to the non-resident supplier and state that they are registered for GST.

Reminder from the ATO re Applying GST to imported services and digital products

The ATO has issued a reminder that if overseas suppliers sell imported services or digital products to Australian consumers and they meet the GST registration turnover threshold, they need to register for GST. They will meet the registration turnover threshold if their taxable sales to Australian consumers in a 12-month period are A\$75,000 or more. Once registered, they will need to report and pay GST on sales to the ATO.

iv) GST - Simplified Accounting Methods determination for food retailers

The [Goods and Services Tax: Simplified Accounting Methods Determination for Food Retailers - Business Norms, Stock Purchases and Snapshot Methods](#) determination will repeal and replace Simplified GST Accounting Methods Legislative Instrument (No 1) 2007 - F2007L02577, registered on 14 August 2007.

This draft determination is substantially the same as the previous determination that it replaces. If you were eligible to use a particular simplified accounting method (SAM) specified in the previous determination, you will continue to be eligible to use that SAM under this determination.

v) GST input tax credits disallowed – tax invoices not enough

Re GH1 Pty Ltd (in liq) and FCT [\[2017\] AATA 1063](#) (5 July 2017) a property development company was not entitled to input tax credits in relation to bulk earthwork services supplied to it by another land development company. The evidence showed that purported tax invoices did not evidence any actual supplies made to the taxpayer, evidence from various sources, including third parties, showed that all relevant development works were completed prior to the dates of the purported invoices, and the taxpayer had already claimed the input tax credits in its BASs for previous tax periods.

The Administrative Appeals Tribunal noted that the taxpayer bore a two-fold onus: to prove, on the balance of probabilities, that the assessment was excessive and what the correct assessment ought to be. In this case, the taxpayer had failed to discharge that burden.

The Tribunal observed that the mere existence of a "tax invoice" is not, by itself, sufficient to establish that a "taxable supply" (under s 9-5 of the GST Act) and corresponding "creditable acquisition" (under s 11-5 of the GST Act), had, in fact, occurred.

vi) GST – removing the double taxation of digital currency

On 9 May 2017, the Government announced that from 1 July 2017 it will [align the GST treatment of digital currency \(such as Bitcoin\) with money](#).

Digital currency is currently treated as intangible property for GST purposes. Consequently, consumers who use digital currencies as payment can effectively bear GST twice: once on the purchase of the digital currency and again on its use in exchange for other goods and services subject to GST.

This measure will ensure purchases of digital currency are no longer subject to the GST.

No changes to the income tax treatment of digital currency are proposed.

Note!

There are a number of changes to GST which may have an impact on your business. You should sit down with your tax agent or adviser to discuss if any of these changes affect you or your business.

Tax incentives for early stage investors

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

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

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

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

Changes for employers of working holiday makers

On 1 January 2017, the tax rate for working holiday makers on 417 or 462 visas changed. If you employ working holiday makers on 417 or 462 visas, you will need to register with the ATO.

Employers who do not register with the ATO will have to withhold tax at the foreign resident tax rate of 32.5% from the first dollar earned. Penalties may apply for failing to register.

Superannuation

i) Key super rates and thresholds

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

For the 2017-18 income year, the:

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

The full list of rates and thresholds can be found on the [ATO website](#).

ii) SuperStream roadmap

The [SuperStream roadmap](#) provides a picture of the changes for the next 18 months. The information on this web page details the changes impacting the superannuation industry up until the end of 2018. The ATO will update the information on this page every quarter. If your business has transitioned to SuperStream, it is worth keeping an eye on this web page for the latest information. You can always talk to your tax agent or adviser about this too.

Streamlined reporting with Single Touch Payroll

Previous editions of *TaxWise Business* contained details of Single Touch Payroll. Employers with 20 or more employees will need to report through Single Touch Payroll from 1 July 2018. The ATO will help and support you to transition during the first year of reporting.

More information can be found on the [ATO website](#).

Changes to tax withholding amounts

i) Withholding on salary and wages

The way tax is calculated on salary and wages has changed.

From 1 July 2017, the:

- temporary budget repair levy has been removed
- Medicare levy low-income threshold increased.

ii) TFN withholding for closely held trusts

Beneficiaries need to quote their tax file number (TFN) to the trustee to avoid having amounts withheld from their payments or unpaid entitlements.

If a beneficiary doesn't quote their TFN before a payment or entitlement occurs, the trustee must withhold from the payment or entitlement, pay the withheld amount to the ATO, and lodge an annual report with details of all withheld amounts.

iii) Withholding in business transactions

Any business or organisation carrying on an enterprise should quote their Australian business number (ABN) when supplying goods or services to another enterprise. If the supplier does not quote their ABN, the general rule is that the payer must withhold 47% (from 1 July 2017) from their payment and send the withheld amount to the ATO.

iv) Withholding from unused leave payments on termination of employment

Under the pay as you go (PAYG) withholding system, when an employee leaves, you may have to withhold from unused leave payments. Information on how to work out the amount to withhold from payments of unused annual and unused long service leave when an employee leaves can be found on the [ATO website](#).

v) Withholding from dividends paid to foreign residents

If you pay dividends to a foreign resident, the unfranked component of each of those payments is subject to a final withholding tax. Information on when and how much to withhold from dividends you pay to foreign residents can be found on the [ATO website](#).

Tip!

Businesses need to get their withholding obligations right. If you are unsure if your business is meeting its withholding requirements or are unsure how any of these changes may affect your business meeting its withholding obligations, you should speak with your tax agent or adviser.

The ATO's compliance approach to employers

The ATO has provided details of its approach to compliance by employers with their obligations. The ATO says that its compliance approach supports employers who engage with the ATO and want to get things right. The ATO takes firmer action against those unwilling to meet their obligations. The approach is based on the relevant facts and circumstances of each case.

For more information, see the [ATO website](#).

Changes to PAYG instalment conditions

From 1 July 2017, changes to administrative rules about who needs to pay PAYG instalments may affect your clients.

The ATO will automatically remove companies, superannuation funds, and self-managed superannuation funds from the PAYG instalment system if their notional tax is less than \$500. This will apply even if their instalment rate is greater than zero percent, and includes those registered for GST.

Taxable payments annual report was due

If you are in the building and construction industry and you paid contractors during 2016-17, your Taxable Payments Annual Report was due by 28 August 2017.

ATO

- i) *Certainty for stakeholders who rely on ATO systems*

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

- ii) *Affected by recent company payroll issues?*

If you have used the services of payroll company Plutus Payroll Australia Pty Ltd and associated entities, the ATO has applied a range of support measures to help you meet your tax and super obligations.

The ATO has developed some scenarios that they are aware of for Plutus payroll and associated companies. Whether your situation falls within a particular scenario will depend on your circumstances. For more information, go to the [ATO website](#).

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