JKA Wealth Solutions

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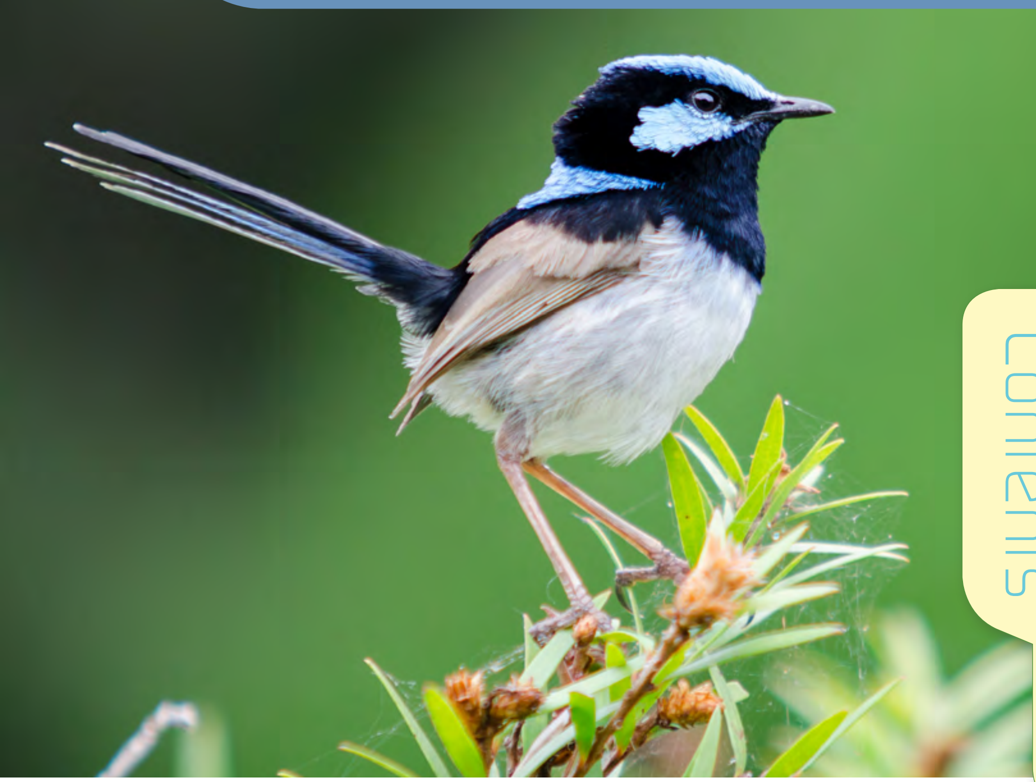
2017 Winter Newsletter



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The first Tuesday in May saw the Budget release. Not quite as eventful as this time last year, when the Budget announcement was also accompanied by an unprecedented interest rate drop by the RBA, and a Federal election announcement.

As we head into winter and the last month of the financial year, it is your last chance to attend to your year-end tax planning. If you have not addressed any of these strategies yet, and need to discuss options available to you, please call us now.

A few strategies to think about include:

- Take advantage of the extended $20,000 instant write-off threshold for small business;
- Take advantage of the opportunities available with changes to Superannuation;
- Pay your income protection insurance in advance; and
- Review all your debt and consider pre-paying tax deductible expenses.

This issue takes a broad look at the proposed measures in the Federal Budget, together with options to 'trial before you hire' for young staff, and action required prior to 1 July 2017 for SMSF commutation requests to stay within the new $1.6 million pension transfer balance cap.

We hope you find our newsletter of value and if there is any area that you would like to discuss, please call us. We are here to help.

Looking for staff? Trial before you hire!

Youth Jobs PaTH (Prepare-Trial-Hire) is a new Australian Government program that makes it easier for you to find and recruit the right young person for your business.

As part of Youth Jobs PaTH, you can host a young person aged 17–24 in an internship placement to find out if they are a good fit for your team.

PaTH internships are supervised work experience and can be between 4 and 12 weeks.

Interns are unpaid by your business. The Australian Government will provide the young person with $200 per fortnight on top of their income support payment, and cover their insurance during the internship.

If you take part, you will receive a payment of $1,000 to help cover the costs of hosting an intern. If you decide to employ your intern, you may be eligible for a wage subsidy of up to $6,500 or $10,000 (GST inclusive).

Next step:

- If you have a vacancy that needs filling now or in the near future, visit jobactive.gov.au/pathExternal Link or call **13 17 15** to find out more.

ASIC LODGEMENTS – A STITCH IN TIME

Historically June is a busy month for lodging with ASIC. The ASIC site has already begun to experience unscheduled service interruptions, particularly in relation to conducting and receiving searches using ASIC Connect - Business Names search, Company search, and Self-Managed Superannuation Fund (SMSF) search, and delays with company registration or maintenance forms using EDGE.

Hopefully this timely reminder not to leave your lodging requests until the last minute, will ensure you do not miss out on time critical deadlines before the end of the Financial Year.

SMSF Action Required by 1 July 2017

$1.6 Million Pension Transfer Balance Cap

SMSF members may need to take action before 1 July 2017 to ensure they do not exceed the $1.6m transfer balance cap, by requesting the trustee to internally commute some or all of their income streams as an accumulation interest within the SMSF, or withdrawn from the SMSF as a lump sum.

The $1.6m pension transfer balance cap comes into effect from 1 July 2017.

One issue that has arisen in this regard is that Self Managed Super Fund (SMSF) members are often not aware of their pension account balance until after the end of the financial year, and may not be in a position to know how much of their account based pension needs to be commuted in order to comply with the $1.6m transfer balance cap.

On 27 April 2017, The Australian Taxation Office (ATO) released **Practical Compliance Guideline PCG 2017/5**. The release of PCG 2017/5 (the Guideline) provides clarification around compliance with the transfer balance cap for members of SMSFs who have more than $1.6m in a retirement pension account.

The Guideline outlines the circumstances in which the ATO will not conduct compliance reviews for pension commutation requests made before 1 July 2017 by a member of a SMSF to avoid exceeding the $1.6m pension transfer balance cap. It also sets out the steps that members of SMSFs should take to ensure they comply with the transfer balance cap - even though they may not know their actual pension account balance until after 30 June 2017.

The ATO suggests that for members to ensure they do not exceed the transfer balance cap, they should make a written request to the trustees of their fund to partially or fully commute an amount in excess of their transfer balance cap (this will generally be $1.6m) with effect from 1 July 2017. The request, to be dated prior to 1 July 2017, should clearly identify the pension from which the commutation is to be made.

Where the SMSF is paying more than one pension to a member, the pension to be commuted could be identified by either quoting the reference number of the pension from the SMSF records (if one exists) or perhaps by identifying the pension type and its opening balance at 1 July 2016 (e.g. 'my account based pension with an opening balance of $1,735,683 on 1 July 2016').

In some situations it may be necessary to commute more than necessary to reduce the pension account balance to $1.6m. This may occur where a member is receiving a pension from another superannuation fund (such as a non-commutable defined benefit pension).

To complete the documentation, the trustees should acknowledge receipt of their member's request to commute, and pass the necessary resolution to comply with that request. The trustee's acknowledgement and resolution should also be completed before 1 July 2017.

When preparing the SMSF's financial accounts for 2016-17, the commutation should be duly reflected in the accounts.

As stated in the Guideline, the ATO will not conduct a compliance review where the commutation request and acceptance:

- **are both made in writing before 1 July 2017** - the agreement by the trustee may be documented as a trustee resolution;
- specifies a methodology that allows the precise quantum of the amount commuted to be calculated (such amount may be ascertained at a later point in time);
- specifies the superannuation income stream(s) to be commuted (and the order of priority in which the commutations will occur where the request covers more than one income stream); and
- do not conflict with a similar agreement to commute that the member has with a trustee of a different superannuation fund.

The agreement to commute cannot be subsequently revoked, and the amount of the commutation must be reflected in the SMSF's financial accounts for the year ended 30 June 2017, no later than the due date of the SMSF's annual return.

The Guideline also states that this concessional compliance approach will not apply in certain circumstances, e.g., where the request is dependent on the later exercise of a discretion by either the member or trustee of the SMSF.

For a copy of ATO | PCG 2017/5, visit the ATO website www.ato.gov.au/law/ and search the Legal database.

Based on articles by Peter Kelly, Centrepoint Alliance and James Shattock, NTAA

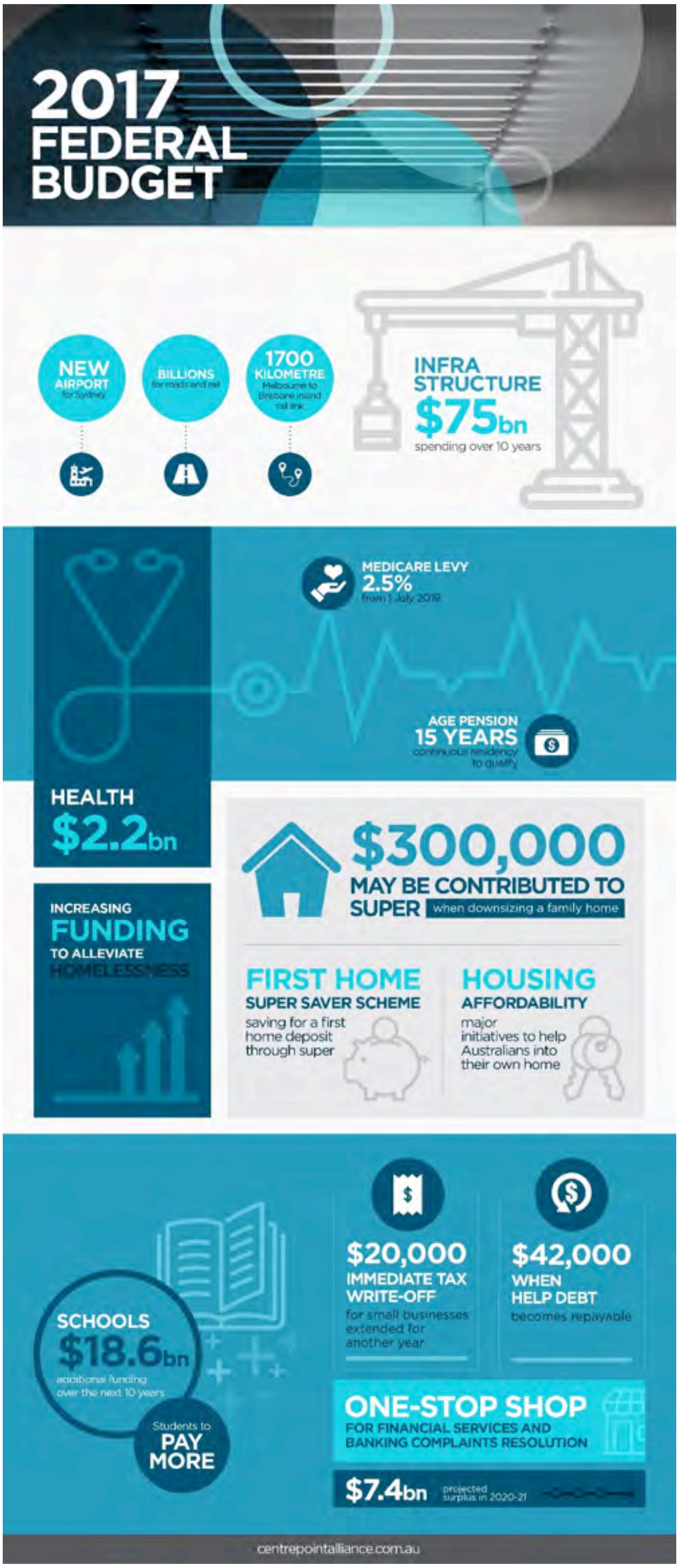
The 2017-18 Federal Budget

On Tuesday 9 May 2017, the Treasurer, Scott Morrison, released the Government's 2017-18 Budget. It's important to note that at this point in time, these proposed measures are not yet law and may be subject to change.

Like all Budgets, the devil is in the detail. Much of this we will not know in its entirety until the relevant legislation is introduced into parliament. Once introduced, it then becomes a matter of having the legislation passed into law which, given the current government has the slimmest majority, could be challenging.

The Economy

Treasury has published some aggressive forecasts and there is a strong chance that actual economic performance might not be strong enough to return the budget to surplus over the projected timeframe. Economic growth is forecast to improve, with growth of 3% per annum predicted from 2018-19. The government is predicting a return to surplus by 2020-21. The deficit for 2017-18 is forecast to be $20.4bn, but following that comes a projected surplus in 2020-21 of $7.4bn.



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Personal Tax

Residential Property Investment

Depreciation limitations on plant and equipment for residential investment properties

From 1 July 2017, the Government will limit plant and equipment depreciation deductions to outlays actually incurred by investors in residential properties after 9 May 2017 (Budget night). Plant and equipment items are usually mechanical fixtures, or those that can be 'easily' removed from a property such as dishwashers and ceiling fans. These changes will apply on a prospective basis, with existing investments grandfathered.

This is an integrity measure to address concerns that some plant and equipment items are being depreciated by successive investors in excess of their actual value.

Removal of deduction for travel expenses for residential rental properties

From 1 July 2017, the Government will not allow deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property.

This is an integrity measure to address concerns that many taxpayers have been claiming travel deductions without correctly apportioning costs, or have claimed travel costs that were for private travel purposes.

Medicare

Increasing the Medicare levy threshold for low-income singles, families, seniors and pensioners

Family status	2015-16 Threshold	2016-17 Threshold
Single	$21,335	$21,655
Single, eligible for seniors and pensioners tax offset (SAPTO)	$33,738	$34,244
Couple	$36,001	$36,541
Couple, eligible for SAPTO	$46,966	$47,670
Additional threshold for each dependent child or student	$3,306	$3,356

Increase in the Medicare levy

From 1 July 2019, the Government will increase the Medicare levy from 2% to 2.5% of taxable income.

Other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also be increased. The current exemptions from the Medicare levy will also remain in place.

Higher Education Loans Payment (HELP)

Changes to the HELP thresholds, rates and indexation

The Government will revise the income thresholds for repayment of HELP debt, repayment rates and the indexation of repayment thresholds from **1 July 2018**.

Higher Education Loans Payment (HELP)	2016-17 Threshold	2017-18 Threshold
Minimum threshold	$55,874	$42,000
Maximum threshold	$103,766	$119,882
Minimum repayment rate	4%	1%
Maximum repayment rate	8%	10%

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Small Business Tax

Extension of the $20,000 immediate write-off for small business

Currently ending on **30 June 2017**, the Government has proposed to extend the concession by 12 months to **30 June 2018** for businesses with an aggregated annual turnover **less than $10 million**.

This would mean small businesses will be able to immediately deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2018. Assets valued at $20,000 or more can continue to be placed into the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter. The pool balance can also be immediately deducted if the balance is less than $20,000 over this period. Further, the current 'lock out' laws for the simplified depreciation rules will continue to be suspended until 30 June 2018.

New integrity measure for small business CGT concessions

The Government will amend the small business CGT concessions with effect from **1 July 2017** to ensure that the concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business. The small business CGT concessions will continue to be available to small business taxpayers with aggregated turnover of less than $2 million or business assets less than $6 million.

GST

Improving the integrity of GST on property transactions

From 1 July 2018, purchasers of newly constructed residential properties or new subdivisions will be required to pay the GST directly to the ATO as part of settlement. This will alleviate the opportunity for developers to withhold the GST from the ATO, despite having claimed GST credits on their construction costs. As most purchasers use conveyancing services to complete their purchase, they should experience minimal impact from this change.

Aligning the GST treatment of digital currency and money

From 1 July 2017, the Government will align the GST treatment of digital currency, for example 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 when used as payment for goods and services. This measure will ensure purchases of digital currency are no longer subject to the GST.

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Superannuation

First home superannuation saver scheme

The Government will encourage home ownership by allowing first homebuyers to 'build a deposit' inside their superannuation fund. Both members of a couple can take advantage of this measure to buy a home together.

- Voluntary superannuation contributions of up to $15,000 per year (up to $30,000 total), can be contributed by first homebuyers from **1 July 2017**. The contribution must be within existing concessional and non-concessional caps. Concessional contributions and earnings on contributions in the fund are taxed at 15%.
- **From 1 July 2018 onwards**, these contributions can then be withdrawn, along with associated deemed earnings, for a first home deposit. Concessional contributions and earnings that are withdrawn will be taxed at the taxpayer's marginal rate, minus a 30% offset. When non-concessional contributions are withdrawn, they will not be taxed.

Limited recourse borrowing arrangements (LRBA)

From 1 July 2017, the Government will include the use of LRBAs in a member's total superannuation balance and transfer balance cap. LRBAs can be used to circumvent contribution caps and effectively transfer growth in assets from the accumulation phase to the retirement phase that is not captured by the transfer balance cap. As such, the outstanding LRBA balance will be included in a member's annual total superannuation balance and the repayment of the principal and interest of a LRBA from a member's accumulation account will be a credit in the member's transfer balance account.

Additional super contributions for downsizers

From 1 July 2018, the Government will allow a person aged 65 or over to make an after-tax super contribution (Non Concessional Contribution or NCC) of up to $300,000 from the proceeds of selling their home. These NCCs will be in addition to those currently permitted under existing rules and caps and they will be exempt from the existing age test, work test and the $1.6 million balance test for making NCCs.

This will apply to sales of a principal residence owned for a minimum 10 years and both members of a couple will be able to take advantage of this for the same home.

Tax relief extension for merging superannuation funds

The Government will extend the current tax relief for merging superannuation funds **until 1 July 2020**. Since December 2008, tax relief has been available for superannuation funds to transfer capital and revenue losses to a new merged fund, and to defer taxation consequences on gains and losses from revenue and capital assets. This was due to lapse on 1 July 2017.

Improve integrity of non-arm's length arrangements

From 1 July 2018, the Government will further improve the integrity of the superannuation system by reducing opportunities for members to use related party transactions on non-commercial terms to increase superannuation savings. The non-arm's length income provisions will be amended to ensure expenses that would normally apply in a commercial transaction are included when considering whether the transaction is on a commercial basis.

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Foreign Investment

Capital gains tax (CGT) changes to foreign investment

From 9 May 2017, the Government will extend Australia's foreign resident CGT regime by:

- denying foreign and temporary tax residents access to the CGT **main residence exemption** from 7:30PM (AEST) on **9 May 2017**, and existing properties held prior to this date will only be grandfathered until **30 June 2019**.
- applying the principal asset test on an **associate inclusive basis** for foreign tax residents with indirect interests in Australian real property from 7:30PM (AEST) **on 9 May 2017**. This will ensure that foreign tax residents cannot avoid a CGT liability by disaggregating indirect interests in Australian real property.

From 1 July 2017, the Government will extend Australia's Foreign Resident Capital Gains Tax Witholding (FRCGW) regime by:

- Increasing the CGT withholding rate for foreign tax residents from 10.0% to 12.5%.
- Reducing the CGT withholding threshold for foreign tax residents from **$2 million to $750,000**.

Charge on foreign owners of underutilised residential property

The Government will introduce a charge of at least $5,000 on foreign owners of residential property where the property is not occupied or genuinely available on the rental market for at least six months per year. This measure will apply to foreign persons who make a foreign investment application for residential property from 7:30PM (AEST) on **9 May 2017**.

The charge will be levied annually and will be equivalent to the relevant investment application fee imposed on the property at the time it was acquired by the foreign investor.

This measure is intended to encourage foreign owners of residential property to make their properties available for rent where they are not used as a residence and so increase the number of dwellings available for Australians to live in.

Restricting foreign ownership in new developments to 50%

The Government will introduce a 50% cap on foreign ownership in new developments through a condition on New Dwelling Exemption Certificates. The cap will be included as a condition on New Dwelling Exemption Certificates where the application was made from 7:30 PM (AEST) on **9 May 2017**.

New Dwelling Exemption Certificates are granted to property developers and act as a pre-approval allowing the sale of new dwellings in a specified development to foreign persons without each foreign purchaser seeking their own foreign investment approval. The current certificates do not limit the amount of sales that may be made to foreign purchasers. The measure will ensure that a minimum proportion of developments are available for Australians to purchase.

Streamlining and enhancing the foreign investment framework

The Government will introduce a range of amendments with effect from **1 July 2017**, to clarify and simplify Australia's foreign investment framework. This will make foreign investor obligations clearer, and allow for more efficient allocation of Foreign Investment Review Board screening resources to higher risk cases. The amended framework will allow Australia's foreign investment framework to operate more efficiently by facilitating business investment and reducing unnecessary red tape.

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Affordable Housing

Increased CGT discount for resident individuals investing in qualifying affordable housing

From 1 January 2018, the Government will increase the capital gains tax (CGT) discount from 50% to 60% for resident individuals who elect to invest in qualifying affordable housing. To qualify for the higher CGT discount, housing must be provided to low to moderate income tenants, with rent charged at a discount below the private rental market rate. The affordable housing must be managed through a registered community housing provider and the investment held for a minimum period of three years. The higher discount would flow through to resident individuals investing in qualifying affordable housing Managed Investment Trusts (see below).

Affordable housing through Managed Investment Trusts (MIT)

The Government will encourage investment into affordable housing by enabling MITs to invest in affordable housing. In order for investors to receive concessional taxation treatment through a MIT, the affordable housing must be available for rent for at least 10 years.

MITs allow investors to pool their funds to invest in primarily passive investments and have them managed by a professional manager. The MIT will be able to acquire, construct or redevelop the property, but must derive at least 80% of its assessable income from affordable housing. Qualifying housing must be provided to low to moderate income tenants, with rent charged at a discount below the private rental market rate. This measure will apply from income years starting **on or after 1 July 2017**.

Under the MIT withholding tax regime, non-resident investors are generally subject to a reduced rate of tax if they are a resident of a country with which Australia has an effective exchange of information treaty. Non-resident investors are generally subject to a 15% final withholding tax rate on fund payments from the MIT. Resident investors are taxed at their marginal tax rates, with capital gains remaining eligible for the CGT discount.

Black Economy Taskforce

Extension of the taxable payments reporting system courier and cleaning contractors

The Government will extend the taxable payments reporting system (TPRS) to contractors in the courier and cleaning industries with effect from **1 July 2018**.

The TPRS is a transparency measure and already operates in the building and construction industry. Under the TPRS, businesses are required to report payments they make to contractors (individual and total for the year) to the ATO. This measure brings payments to contractors in the courier and cleaning industries into line with wages, which are reported to the ATO. Businesses in these industries will need to ensure that they collect information from 1 July 2018, with the first annual report required in August 2019.

One year extension of funding for ATO audit activities

The Government will provide $32 million for one year of additional funding for ATO audit and compliance programs to better target black economy risks. This funding was to expire on 30 June 2017.

Under this measure, a further year of funding will be provided for the ATO's 'Strengthening Foundations' and 'Level Playing Field' programs. 'Strengthening Foundations' focuses on businesses with a turnover between $2 million and $15 million that have disengaged from the tax system. The 'Level Playing Field' program involves audit, review and intensive follow up and targeting small businesses with turnover below $2 million. These programs are directed at changing black economy and related behaviours such as non-lodgment, omission of income and non-payment of employer obligations.

Prohibition on sales suppression technology and software

The Government will act to prohibit the manufacture, distribution, possession, use or sale of electronic point of sale ('POS') sales suppression technology and software. The prohibition will have effect from the date of Royal Assent of the enabling legislation. Sales suppression technology and software allow businesses to understate their incomes by untraceably deleting selected transactions from electronic records in POS equipment. Income earned from these transactions and tax owing from this income is not reported to the ATO.

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Aged Care, Social Security, Health and Education

The Budget contained a number of announcements in relation to aged care, social security, health care and education. Some of the measures announced included:

- From **26 June 2017**, the Government will make a one-off Energy Assistance Payment of $75 for single recipients and $125 per couple for those eligible for qualifying payments on 20 June 2017, and who reside in Australia. The payment is not taxable and will not be counted as income.
- From **9 October 2017** the Government will reinstate the Pensioner Concession Card (PCC) for pensioners who lost their Age Pension as a result of the 1 January 2017 Age Pension changes. Those affected will receive the PCC and retain the Commonwealth Seniors Health Card, to ensure they continue to receive the Energy Supplement. Where they received the Low Income Health Care Card, that card will be deactivated.
- The Government will revise the residency requirements for claimants of the Age Pension and the Disability Support Pension (DSP) from **1 July 2018**. Generally, claimants will now need to have 15 years of continuous Australian residence before being eligible to receive the Age Pension or DSP unless certain conditions or an exemption applies.
- Additional funding to extend the Commonwealth Home Support Program and Regional Assessment Service. These programs support many of the services that enable older Australians to remain in their own home as they get older.
- The Government will continue to keep the Family Tax Benefit (FTB) payment rate fixed until **1 July 2019**. Indexation in line with the Consumer Price Index will resume from that date. From 1 July 2018, all families with total income over $94,316 will have their Family Tax Benefit (FTB) Part A reduced by 30 cents for every dollar above $94,316.
- From **20 September 2018**, the period that you must wait before being paid an allowance (for example Newstart), if you have 'liquid' assets will increase from 13 weeks to 26 weeks. This will ensure that applicants exhaust their own financial resources before being eligible to claim income support from the government.
- The Government will progressively consolidate seven working age payments and allowances into a new JobSeeker Payment or transition recipients to Age Pension. The working age payments affected are Newstart Allowance, Sickness Allowance, Widow Allowance, Partner Allowance, Widow B Pension, Wife Pension and Bereavement Allowance.
- The 2017-18 Budget will allow for an additional $1.8bn to be made available for new and amended listings under the Pharmaceutical Benefits Scheme (PBS). This means out-of-pocket expenses will be less for some, as well as the addition of medicines added to the PBS in order to treat heart conditions and schizophrenia.
- The government has confirmed its intentions to substantially increase funding for schools.
- Also, and not unexpected, was the announced changes set to reform funding of higher education, in addition to the abovementioned changes to the government's Higher Education Loan Program (HELP).

Call us now to assist you with tax planning preparation before 30 June 2017.
As always, we are here to help you.

How to Set Your Salary as a Small Business Owner

Based on article by Susan Ward

As a small business owner, if you choose to structure your business as a corporation, drawing a salary is just one of the options when it comes to paying yourself, and some of the other options may be better for you tax-wise. Whilst there are really no hard and fast rules about how much you pay yourself, there is a body of traditional advice that you can draw upon to make a decision that is best both for your business stage of development and your personal situation.

The Traditional Advice for Start-ups

Everyone has heard that you are supposed to start out as leanly as possible. The theory is that the more you can cut down on your operational expenses, the better chance your small business has to succeed. Therefore, if you're going to pay yourself anything (if you really, really have to) your salary should be just enough for you to scrape by.

This kind of advice can be one of the reasons so many people who want to start small businesses do not. There is nothing inherently attractive about living in a basement suite subsisting on instant noodles, while trying to turn your great idea into something real.

Instead, Show 'Em the Money

And not paying yourself a salary does nothing for your fledgling business either.

If you write a business plan in the hopes of getting funding for your small business, either through grants, loans or by securing investors, not including a salary for yourself as one of your expenses in the financial section of your business plan will raise a red flag. An owner's salary is a reasonable and expected expense and if it is not included, you will be overestimating your potential profits.

It is also important to include a salary for yourself in your start-up plan, otherwise you will be leaving out a future expense and not asking for enough funding from your creditors or investors.

Including an amount for salary does not require you to draw the salary if you do not need to. You can always defer it, and get it back with interest once the company starts making some money.

Your Salary Should Reflect What You're Worth

How much are you worth?

First, figure out what you absolutely need. Start with your personal expenses. Make a list and check it twice. You don't want to miss anything. Be sure you include semi-annual and annual expenses as well as some kind of rainy day amount.

Then add your start-up and operating expenses. Start-up expenses may include business registration fees, business licensing and permits, starting inventory, rent deposits, down payments on property, down payments on equipment, utility set up fees. Operating expenses may include salaries (yours and staff salaries), rent or mortage payments, telecommunications, utilities, raw materials, storage, distribution, promotion, loan payments, office supplies, maintenance. 6 months operating expenses is a good start.

Tally everything and you'll have the amount that you absolutely need. If you are starting a business yourself and have no need of external funding, use this number as your salary base.

However, if you are seeking external funding, go to the next step right away and ***figure out what you're actually worth.***

This number will be a combination of:

1) the skills and expertise you bring to the business and;

2) what your peers are paid.

If you don't know already, find out what people with your skills typically make. Search for average pay in your profession or trade for starters or find out what salaries/ hourly pay are typical for your industry. As your accountant

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How to Set Your Salary as a Small Business Owner

we work for a fair number of other businesses in the area and can usually fill you in what is normal for your industry.

You need to look at salary ranges for your role and where you fit into the salary range in terms of expertise and experience and how much the local market will bear. So the next step would be to check out the competition, finding out who they are and how much they charge.

Once you've done your research, you're ready set your salary.

Paying yourself what you're worth from the get-go will not only make your start up plan more realistic but give you the incentive to work hard on growing your business.

When Your Business Grows

Once a small business reaches break-even, many small business owners are tempted to re-evaluate their salaries. We would generally advise against this as raising your salary now could well tip your new business into the red again.

Instead, wait a year past your break-even point and then re-evaluate. If you've been paying yourself only 70 to 80% of a market value salary, now's the time to raise it, assuming the business can afford it. Once a business has become stable, it's standard practice for owners to pay themselves by taking a percentage of the profits – generally no more than 50%. This makes sense because it ties your salary to the performance of the company.

Review Your Salary Regularly

Companies aren't static, so your salary shouldn't be either. You should review it regularly, relative to your business's performance. As your accountant we can assist by ensuring your salary and any bonuses you pay yourself are in keeping with your tax goals, and discuss the advantages and disadvantages of paying yourself through salary, dividends or a combination of both.

Remember, "The worst time to take significant amounts of your business is when it's growing", says Dave Cook, a partner in KPMG's enterprise group. "Entrepreneurs often fail to realise that a business in its growth stage needs all its cash flow to grow the business".

Call us today if you are thinking about starting a new business, or if you need guidance in setting your salary, as we can assist!

SMALL BUSINESS TAX CHANGES

Small business changes announced in the 2015-16 budget are now law. The following changes apply from 1 July 2016.

- From the 2016–17 income year, the small business company tax rate has been reduced to 27.5%. The maximum franking credit that small business can allocate to a frankable distribution is also 27.5%. This lower rate now applies to small businesses with a turnover (that is, aggregated turnover) less than $10 million that are companies, corporate unit trusts or public trading trusts.

  If you are a small business and have already issued your 2016–17 distributions based on the 30% company tax rate, you need to notify your members of the correct dividend and franking credit amounts based on the 27.5% company tax rate. You can do this by sending a letter or email to your members, or a revised distribution statement. You also need to ensure the correct amounts are reflected in your franking account. For more information about this, see the ATOs *PCG 2017/7 Enterprise Tax Plan: Small business over-franking in 2016–17 income year because of tax rate change.*
- 8% small business income tax offset (up to $1,000) limited to businesses with a turnover of less than $5 million. It applies only to business income for sole traders, or share of business income for partnerships or trusts.
- Small business turnover threshold has been increased from $2 million to $10 million. This means more businesses can access a range of small business concessions, including the $20,000 instant asset write-off and reduced company tax rate.

Tax concessions help your business save. Give us a call if you need assistance!