VKC CONSULTING
Chartered Accountants

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2016-17 Federal Budget small business measures

Increase to the small business entity turnover threshold

Building on the small business package of measures introduced in the 2015-16 Federal Budget, from 1 July 2016, the small business entity turnover will be increased from $2 million to $10 million. Qualifying taxpayers will be able to access the following income tax concessions for small businesses:

- simplified depreciation rules, including immediate deductibility for assets costing less than $20,000 (until 30 June 2017);
- simplified trading stock rules (there will be no requirement for an end of year stocktake if the value of trading stock has changed by less than $5,000);
- a simplified method of paying PAYG instalments calculated by the ATO (removing the risk of overestimating or underestimating PAYG instalments and incurring penalties);
- accounting for GST on a cash basis and paying GST instalments as calculated by the ATO;
- other concessions available to small businesses, including certain fringe benefits tax (FBT) exemptions such as the extension of the exemption for work-related portable electronic devices (starting from 1 April 2017 to align with the FBT year); and
- immediate deductibility of professional expenses.

However, only small businesses with a turnover of less than $2 million or that satisfy the maximum net asset value test will be able to access the existing small business capital gains tax (CGT) concessions.

In addition, from 1 July 2017, all small businesses with a turnover of less than $10 million will be able to access a simpler approach to preparing a Business Activity Statement (BAS) by being able to more easily classify transactions and prepare and lodge a BAS. A trial of the new simplified BAS reporting requirements will start on 1 July 2016.

Unincorporated small businesses

The unincorporated small business tax discount will be increased over 10 years from the current 5% to 16%, first increasing to 8% on 1 July 2016. The current cap of $1,000 per individual for each income year will be retained.

The rate will increase as follows:

Income Year	Rate
2015-16	5%

2016-17	8%
2017-18	8%
2018-19	8%
2019-20	8%
2020-21	8%
2021-22	8%
2022-23	8%
2023-24	8%
2024-25	10%
2025-26	13%
2026-27	16%

Changes to the rules applying to private companies

As announced in the Federal Budget, targeted amendments will be made to improve the operation and administration of the integrity rules for closely-held private groups (in Division 7A of the *Income Tax Assessment Act 1936*). The amendments will apply from 1 July 2018 and will include:

- a self-correction mechanism for inadvertent breaches of Division 7A;
- safe-harbour rules to provide certainty;
- simplified loan arrangements for the purpose of the rules; and
- a number of technical adjustments to the law to improve its operation and provide increased certainty for taxpayers.

To do!

There are a number of changes to the taxation of small and private businesses that were announced in the 2016-17 Federal Budget. You should talk to one of the tax practitioners at VKC Consulting Chartered Accountants to see how these changes might affect your small business.

Reduction in the company tax rate

As announced in the 2016-17 Federal Budget, the company tax rate will be progressively reduced to 25% over the next 10 years. Correspondingly, the annual aggregated turnover threshold that will allow companies to qualify for the lower rate will rise over the next 10 years.

The changes to the company tax rate and turnover threshold are contained in the table below:

Income Year	Rate	Annual aggregated turnover threshold
2015-16	28.5%	$2 million
2016-17	27.5%	$10 million
2017-18	27.5%	$25 million
2018-19	27.5%	$50 million
2019-20	27.5%	$100 million
2020-21	27.5%	$250 million
2021-22	27.5%	$500 million
2022-23	27.5%	$1 billion
2023-24	27.5%	No limit
2024-25	27%	No limit
2025-26	26%	No limit
2026-27	25%	No limit

The company tax rate remains at 30% for all companies unless they qualify for the reduced rate up until 2023-24 when all companies qualify for the lower rate.

2016-17 Federal Budget changes to GST and other indirect taxes

GST on low value imports

From 1 July 2017, GST will apply to all low value goods imported by consumers from overseas. Imported low value goods should be subject to the same GST treatment as low value goods purchased by consumers domestically.

Overseas suppliers with an Australian turnover of $75,000 or more will be required to register for GST and collect and remit GST for low value goods supplied to Australian consumers. A 'vendor registration' model will be used for overseas suppliers to register for GST.

These arrangements will be reviewed after two years to ensure they are operating as intended and to take account of any international developments.

Measures impacting other indirect taxes

i) Tobacco excise and excise-equivalent customs duties will be subject to four annual increases of 12.5% from 1 September 2017 to 2020.

ii) The wine equalisation tax (WET) rebate cap will be reduced to $350,000 on 1 July 2017 and to $290,000 on 1 July 2018. This is to address integrity concerns with the rebate and to tighten eligibility criteria.

iii) From 1 July 2017, the excise refund scheme will be extended to domestic distilleries and producers of low strength fermented beverages such as non-traditional cider.

> ***Note!***
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> Some of these changes are specific to particular industries and others, like the GST changes, are much broader. VKC Consulting Chartered Accountants will be able to help you work out how these changes might impact on your particular business.

GST cross-border transactions between businesses

The *Tax and Superannuation Laws Amendment (2016 Measures No. 1) Act 2016* contains an amendment to the GST law to ensure non-residents are not unnecessarily drawn into Australia's GST net.

Starting from 1 October 2016, non-resident suppliers will be relieved of the obligation to account for GST on certain supplies, therefore reducing their compliance costs.

The ATO has released draft *LCG 2016/D1 GST and carrying on an enterprise in the indirect tax zone (Australia)* to help those affected understand the operation of the new law and to help you decide if they need to register for GST. The guideline discusses a new test in the GST Act for when an entity is carrying on an enterprise in the Australian indirect tax zone.

This has implications for business-to-business transactions and the obligation to account for GST may instead fall on the recipient. If you have overseas suppliers, it would be worth discussing with us what may be the implications on your business from this change.

Four years to get it right: time limit to review BAS

The ATO has reminded tax practitioners that for tax periods starting on or after 1 July 2012, there is a four year time limit ('period of review') to amend or revise their clients' activity statement assessments.

The period of review begins the day a taxpayer's activity statement is lodged. During this time, there is no limit to the number of amendments that can be made. However in most cases, once the period of review expires, further amendments can't be made.

It is good to keep in mind the limitations on being able to amend your BAS, particularly if you discover something (eg an acquisition) you may have accidentally omitted from telling us about. The sooner you let us know, the sooner we can correct your BAS.

Applying the small business restructure rollover

The small business restructure rollover (SBR rollover), announced as part of the 2015-16 Federal Budget, allows small businesses to transfer active assets from one entity (the transferor) to one or more other entities (transferees), on or after 1 July 2016, without incurring an income tax liability.

This rollover applies to the transfer of active assets that are CGT assets, trading stock, revenue assets or depreciating assets.

Entities eligible for the rollover are:

- a small business entity;
- an entity that has an affiliate that is a small business entity;
- an entity that is connected with a small business entity;
- a partner in a partnership that is a small business entity.

The rollover can be accessed when:

- it is part of a 'genuine restructure'; and
- there is no change to the ultimate economic ownership of the asset.

Assets eligible for the rollover include active assets that are CGT assets, depreciating assets, trading stock or revenue assets transferred between entities as part of a genuine restructure of an ongoing business.

The ATO has also issued Law Companion Guideline 2016/D2 which explains the consequences of applying the rollover for both the transferor and transferee and Law Companion Guideline 2016/D3 which explains the meaning of a '*genuine restructure of an ongoing business'.*

> ***To do!***
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> If you are planning on restructuring your business, it is vital that you speak to us on the best way to do this, especially to make sure you correctly apply rollovers or other tax concessions that you may be eligible for.

Updated information on CGT rollovers

You may be allowed to rollover (defer or disregard) a capital gain that results from a CGT event until another CGT event happens in the case of assets involved in the following events:

- small business restructure rollover;
- marriage or relationship breakdown;
- loss, destruction or compulsory acquisition;
- mining lease;
- scrip for scrip;
- demergers;
- other replacement-asset rollovers;
- other same-asset rollovers.

For more information on each of the above, visit the ATO website.

FBT changes

Car expenses – cents per kilometre

The Government has made changes to the cents per kilometre method. From 1 July 2015, separate rates based on the size of the engine are no longer available. Taxpayers should now use a single rate of 66 cents per kilometre for all motor vehicles for the 2015-16 income year. The Commissioner of Taxation will determine the rate for future income years.

i) Rate for fringe benefits calculations

This single rate of 66 cents per kilometre will also apply to certain expense payment fringe benefit calculations for the 2016 FBT year where an employer reimburses an employee's car expenses on a cents per kilometre basis.

These fringe benefits relate to:

- relocation transport;
- employment interviews or selection tests;
- work-related medical services; and
- transport to enable an employee employed in a remote area or employed overseas to have a holiday.

ii) Special arrangement for 2016

The ATO acknowledges there has been uncertainty about the correct rate to apply for the 2016 FBT year. Therefore, the ATO will also accept 2016 FBT returns based on the 2014-15 rates (which are 64, 76 or 77 cents per kilometre depending on the engine capacity of the employee's car).

iii) After 2016

For future FBT years, which end on 31 March, employers should use the rate determined by the Commissioner for the income year that ends on the following 30 June. For example, for the FBT year ending 31 March 2017, employers should use the basic car rate determined by the Commissioner for the 2016-17 income year.

For more information on how to work out how much you can claim, visit the ATO website.

Tip!

If you have yet to do your FBT return and have car expenses to take into account, make sure you apply the right rate. However, it is good to know that the ATO will accept returns based on the 2014-15 rates for the 2015-16 FBT year.

Rates and thresholds for 2016-17 FBT year

Consistent with what happens each year, the Commissioner has issued a series of Taxation Determinations setting out various FBT rates and thresholds for the FBT year commencing 1 April 2016. They are:

- TD 2016/1 FBT: for the purposes of section 28 of the *Fringe Benefits Tax Assessment Act 1986* what are the indexation factors for valuing non remote housing for the fringe benefits tax year commencing on 1 April 2016?
- TD 2016/2 FBT: for the purposes of section 135C of the *Fringe Benefits Tax Assessment Act 1986*, what is the exemption threshold for the fringe benefits tax year commencing on 1 April 2016?
- TD 2016/3 FBT: what are the rates to be applied on a cents per kilometre basis for calculating the taxable value of a fringe benefit arising from the private use of a motor vehicle other than a car for the fringe benefits tax year commencing on 1 April 2016?
- TD 2016/4 FBT: reasonable amounts under section 31G of the *Fringe Benefits Tax Assessment Act 1986* for food and drink expenses incurred by employees receiving a living-away-from-home allowance fringe benefit for the fringe benefits tax year commencing on 1 April 2016.
- TD 2016/5 FBT: what is the benchmark interest rate to be used for the fringe benefits tax year commencing on 1 April 2016?

Note!

These changes apply to the 2016-17 FBT year so should not affect what goes into your 2015-16 FBT return.

FBT exemption for work-related electronic devices

As noted in previous editions of *VKC Tax News*, small businesses can now provide their employees with multiple work-related devices without incurring FBT on providing those devices. This applies even if the devices have similar functions. Devices can include laptops, tablets, mobile phones, calculators and GPS navigators.

As 1 April has now ticked over, it is worth reiterating the following:

- Items purchased prior to 1 April 2016, but supplied to the employee after this date are also eligible for the exemption.
- Multiple devices bought and given to the employee before 1 April 2016 are not eligible. In these cases, the exemption only applies to one item for that FBT year.

Employees vs contractors: do you know the difference?

You may be relying on 'myths' when deciding whether your workers are employees or contractors.

VKC Consulting Chartered Accountants assist small business owners work out:

- the difference between employees and contractors;
- common myths about contracting;
- how to make the right decision about the status of workers;
- what the tax and super consequences are for each.

Businesses targeted for employee and contractor obligations

The ATO is running an education campaign for employers in the bakery, supermarket, car retailing, and computer system design industries to help them meet their tax and super obligations in relation to employees and contractors. Businesses in these industries have been identified as having a higher risk of not meeting their business obligations in relation to employees and contractors.

Information on superannuation (how much to pay and who to pay it to), PAYG and FBT for small businesses can be found on the ATO website. However, you should talk to us to work out exactly what your obligations are in relation to employees and contractors you have on staff and what implications there may be for your business if you don't meet your obligations.

Managing your tax debts

As a small business owner, you would be familiar with how occasional cash flow issues can impact on your business and, in particular, your ability to meet the variety of tax obligations you have on time.

The ATO has developed a payment arrangement calculator to help small businesses work out what payments will be affordable for their circumstances at these times. We can then assist you to submit a payment plan request to the ATO. We may also be able to help advise you on ways to better manage your tax obligations so you don't run into these sorts of issues again.

Supporting your small business: what's new?

The ATO has released the following checklists and tools to improve the tax and super experience for small businesses:

- The Taking on an employee checklist, which will take you through the different requirements you need to consider when taking on an employee, such as pay rates, workers' compensation and health and safety.
- Calculators and tools to help you get it right when it comes to your tax and super obligations.
- A free ATO app for quick access to tools and calculators, answers to frequently asked questions, key dates and reminders.
- Watch videos that cover tax and super information relevant to you. Topics include whether your worker is an employee or contractor, super, record keeping, franchising, managing ABNs, GST basics etc.

Other ATO Updates

Avoid GST refund delays – pharmacists and chemists

If you run a pharmacy or chemist, you may be affected by changes to drug treatments included on the pharmaceutical benefits scheme (PBS). These changes, in particular the hepatitis C drug treatment, may cause these businesses to have unusually high GST credits.

To minimise delays in payment of GST refunds, before you lodge activity statements, check:

- Your contact details are correct;
- Your activity statement lodgments are up to date;
- Your bank account details are correct; and

- You have included the correct business industry code to describe your business.

Note!
If you do have an unusually high GST refund, the ATO may contact you to confirm it.

'Annual tax obligations for employers'

Don't forget that we are there to help remind you of your annual tax obligations and to prepare and lodge your returns on time to make sure you satisfy all your compliance obligations.

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