# rdl.overview

Winter 2018

**INSIDE • 2018 Federal Budget • Beware when engaging contractors or employees • Superannuation – how much are Aussie's saving? • CGT and the family home • A Charity Marketplace?**

rdl.accountants

# 2018 Federal Budget

The May 2018 Federal Budget, described by some as an *"election budget,"* contained some positive news for individuals and businesses.

Perhaps the part of the Budget that has so far received the greatest focus is the reduction in personal tax rates, which is proposed to take effect over a seven year period. From 1st July 2018 the government proposes to:

- Increase the point at which the 32.5% tax rate cuts out, from $87,000 to $90,000 – a tax saving to individuals of $135 per year.
- Introduce the Middle Income Tax Offset, providing a tax saving of up to $530 per year. This will be of greatest benefit to those earning between $48,000 and $90,000 per annum.

There are other proposed personal tax reductions, which are intended to apply progressively, beginning from 1st July 2022. These include increasing the Low Income Tax Offset, and an increase in the personal tax thresholds (eg applying the top rate of tax to incomes above $200,000 from 1st July 2024, rather than $180,000 which is currently the case).

**Business clients will be interested in the following:**

**From 1st July 2018**

- The $20,000 immediate write-off for assets costing less than $20,000 ($22,000 for GST registered businesses), which was due to end on 30th June 2018 has been extended for another year. This applies to businesses with a turnover under $10m.

- The rate of claim for Research and Development expenditure will be modified. Broadly, companies with a turnover under $20m will have an R&D claim rate of 13.5% above their applicable corporate tax rate, while the rate for companies with a turnover over $20m will depend on what proportion of their overall expenditure is on R&D activities. The government also proposes to increase the transparency of the program by enabling the ATO to publicly disclose details of claimants and the amounts claimed, and place other restrictions.

**From 1st July 2019**

- Payers will be denied a tax deduction for payments made to contractors who have not quoted an ABN, or employees from whom tax was not withheld but should have been (see separate article in this newsletter – it's worth a read).
- Introduction of an economy-wide cash payment limit of $10,000 for payments made to businesses for goods and services.
- The Taxable Payments Reporting System, is to be extended to businesses providing security and investigation services, road freight transport services, and computer system design and related services. This is a system that requires payers to annually report to the ATO the details of all payments made to contractors. The ATO uses this in its data matching programs.
- Tax deductions for costs of holding vacant land will be restricted.

**There were also some positive announcements in relation to superannuation, as follows:**

**From 1st July 2018**

- Individuals with income above $263,157 and multiple employers will be able to nominate that some of their wages not count for Superannuation Guarantee purposes, so that they do not exceed the current $25,000 concessional contributions cap.

**From 1st July 2019**

- Individuals aged between 65 and 74 with less than $300,000 in super will be able to make voluntary contributions to super without having to meet the "work test". This is a test that currently requires those in that age bracket to have worked at least 40 hours in a 30 day period, before being eligible to contribute to super.
- Self-Managed Super Funds (SMSF's) will be able to have up to six members – the current limit being four members.
- SMSF's with a clean track record will be able to be audited every 3 years, instead of every year
- Super funds will be prevented from applying default insurance cover for members in certain categories such as those with low or dormant balances, or members aged under 25.
- Fees charged on low balances are to be restricted, and exit fees banned, to protect member balances.

Talk to your RDL advisor about how these changes are likely to impact you. With the majority of these changes applying after the next Federal election, we will have to see just how much of what is proposed actually "gets up".

# Beware when engaging contractors or employees

The May 2018 Federal Budget has left little doubt that anyone looking for a tax deduction for payments to contractors or employees had better get their house in order.

Currently payers are required to withhold the required amount of tax from payments to employees, and either obtain an ABN from a contractor, or withhold tax if no ABN is provided. Where such withholding does not occur, the payer is required to pay the tax, although in practice this is generally only enforced in the case of a tax audit.

From 1st July 2019 the government will amend the tax law to deny a tax deduction where a withholding obligation exists but no tax was withheld.  The announcement, which was a recommendation contained in the final report of the Black Economy Taskforce, significantly changes the playing field, creating a financial disincentive for businesses to engage in Black Economy behaviour.

Joel Hernandez
*Director – Taxation and Business Services*

# Superannuation – how much are Aussie's saving?

Every year, the Australian Taxation Office (ATO) compiles the tax data it collects. The recently released 2015-16 'tax stats' encapsulates the data from 16 million income tax returns lodged for the 2016 income year for 13.5 million individuals, 940,000 companies, as well as superannuation funds, partnerships, and trusts.

In relation to super, the data reveals that while the average superannuation account balance is $115,945 the median was only $37,473 which is clearly not enough to self-fund retirement.

The median account balance of men aged 55 to 59 was $124,738 with women likely to have only $83,103 in this same age bracket. The greatest disparity between men and women is in the 50 to 54 age bracket, with women likely to have balances 36% less than their male counterparts.

The highest income earners, those on taxable incomes above $180,000 had the highest super balances with a median of $254,273 ($532,278 average).

The average superannuation balance in the ACT was higher than anywhere else in Australia at $185,777 (median of $57,239) for males, and $157,981 (median of $47,364) for females. The gap between males and females was also likely to be less with the average super account balance for females 15% less than males.

By contrast, females in Victoria are likely to have super account balances 25% less than males.

This is a stark reminder that many Australians are likely to be underfunded when it comes to their retirement savings, particularly in super, where the tax benefits are significant, despite recent tightening-up of the rules. Balancing the amounts in super with a spouse can be very advantageous, and can be achieved by using the super splitting rules. RDL can help you with strategies to give you the optimum benefit.

# CGT and the family home: Expats and foreign residents beware

The family home of foreign residents and expats may be taxed if legislation before Parliament is passed by the Senate.

If you are a foreign resident living in Australia or an Australian working overseas who owns residential property in Australia, this reform potentially has serious tax implications for you.

Currently, individuals are generally not subject to capital gains tax (CGT) on the sale of the home they treat as their main residence. If the home was your main residence for only part of the ownership period or if the home is used to produce income (for example, you use part of the home as business premises or rent out part of the property), then a partial exemption may be available. In addition, if you move out of your home and you don't claim any other residence as your main residence, then you can continue to treat the home as your main residence for up to six years if you rent it out or indefinitely if you don't rent it out (the 'absence rule').

The main residence exemption is currently available to individuals who are residents, non-residents, and temporary residents for tax purposes.

Under new laws before Parliament, you will not be able to claim an exemption under the main residence rules if you are a non-resident for tax purposes at the time you sell, even if you were a resident for some (or even most) of the ownership period. The new rules do not allow for partial exemptions. If, however, you are an Australian resident at the time you sell, then the normal main residence exemption rules apply, even if you were a non-resident for some or most of the ownership period.

Someone holding property at 9 May 2017 can apply the current rules if the CGT event occurs on or before 30 June 2019 - for a sale of a property the CGT event date is likely to be the date of contract not the settlement date. This transitional period gives non-residents some time to sell their main residence (or former main residence) if they choose and obtain a level of tax relief under the main residence rules.

Keep in mind that we are talking about tax residency, which has its own set of rules to the immigration, visas and citizenship requirements. It's different and you need to be clear about where you fit.

If you are an Australian citizen working overseas but a non-resident for tax purposes, these new rules are likely to affect your main residence in Australia.

If you maintain your main residence in Australia, you can use the absence rule to maintain the exempt status of your property just in case you decide to return to Australia.

When you return permanently to Australia and decide to sell, you are likely to be able to access the main residence exemption (or a partial exemption). If you rent out your property while you are away, the absence rule allows you to treat the property as your main residence for up to six years. Be wary of exact dates here. One day the wrong way or a misapplication of the absence rule could make a significant difference to the tax you pay.

If you sell the property while you are a non-resident, once these new laws come into effect, you will not be entitled to the main residence exemption at all. Similarly, if you die while overseas, and your home is sold within two years of the date of your death, it's likely that your beneficiaries will not be able to claim the main residence exemption.

*Continued over...*

### Example from the legislation

*Vicki acquired a dwelling in Australia on 10 September 2010, moving into it and establishing it as her main residence as soon as it was first practicable to do so.*

*On 1 July 2018 Vicki vacated the dwelling and moved to New York. Vicki rented the dwelling out while she tried to sell it. On 15 October 2019 Vicki finally signs a contract to sell the dwelling with settlement occurring on 13 November 2019. Vicki was a foreign resident for taxation purposes on 15 October 2019.*

*The time of CGT event A1 for the sale of the dwelling is the time the contract for sale was signed, that is 15 October 2019. As Vicki was a foreign resident at that time she is not entitled to the main residence exemption in respect of her ownership interest in the dwelling.*

If you are uncertain of your position or the likely impact of these new rules on you, you should seek help from your RDL advisor. Tax residency status is often complex and is not intuitive – it's important to get it right.

## To think upon

*Discovery consists in seeing what everyone else has seen and thinking what no one else has thought.*

**Albert von Szent-Gyorgyi**

*Nothing comes from doing nothing.*

**William Shakespeare**

# A Charity Marketplace?

What if there was somewhere a potential donor could go to find all charities supporting cancer research in all of Australia, or all charities working with the homeless in Melbourne?

Currently this is difficult, but developing the ACNC charity register into a more searchable resource where potential donors can find and compare charities in their areas of interest is one to the goals of the new ACNC Commissioner, the Hon. Dr Gary Johns.

Under the former commissioner, Susan Pascoe AM, the ACNC was introduced and in its infancy had a natural focus on educating charities about the new compliance regime. Now, five years on, the focus is shifting to supporting the donor by enabling the public to more easily find information that will help to understand and compare charities.

Under the currently accounting standards, donors find it difficult to accurately compare the financial performance of charities by just looking at financial statements. Choices in accounting policies and presentation means some are "apples", some "oranges" and some "tomatoes", making a comparison virtually impossible.

Dedicated non-for-profit accounting standards could help with this apparent "fruit salad" of reports, but it will not remove other variables such as geographical location, which can have a significant impact on the operation costs of charities. This means that the non-financial information provided by charities in their ACNC reporting is likely to be far more important in attracting donors.

With the ACNC realigning its focus to benefit the public donor, there is an emerging question mark over the anonymity currently enjoyed by Basic Religious Charities, which are currently exempt from financial reporting.

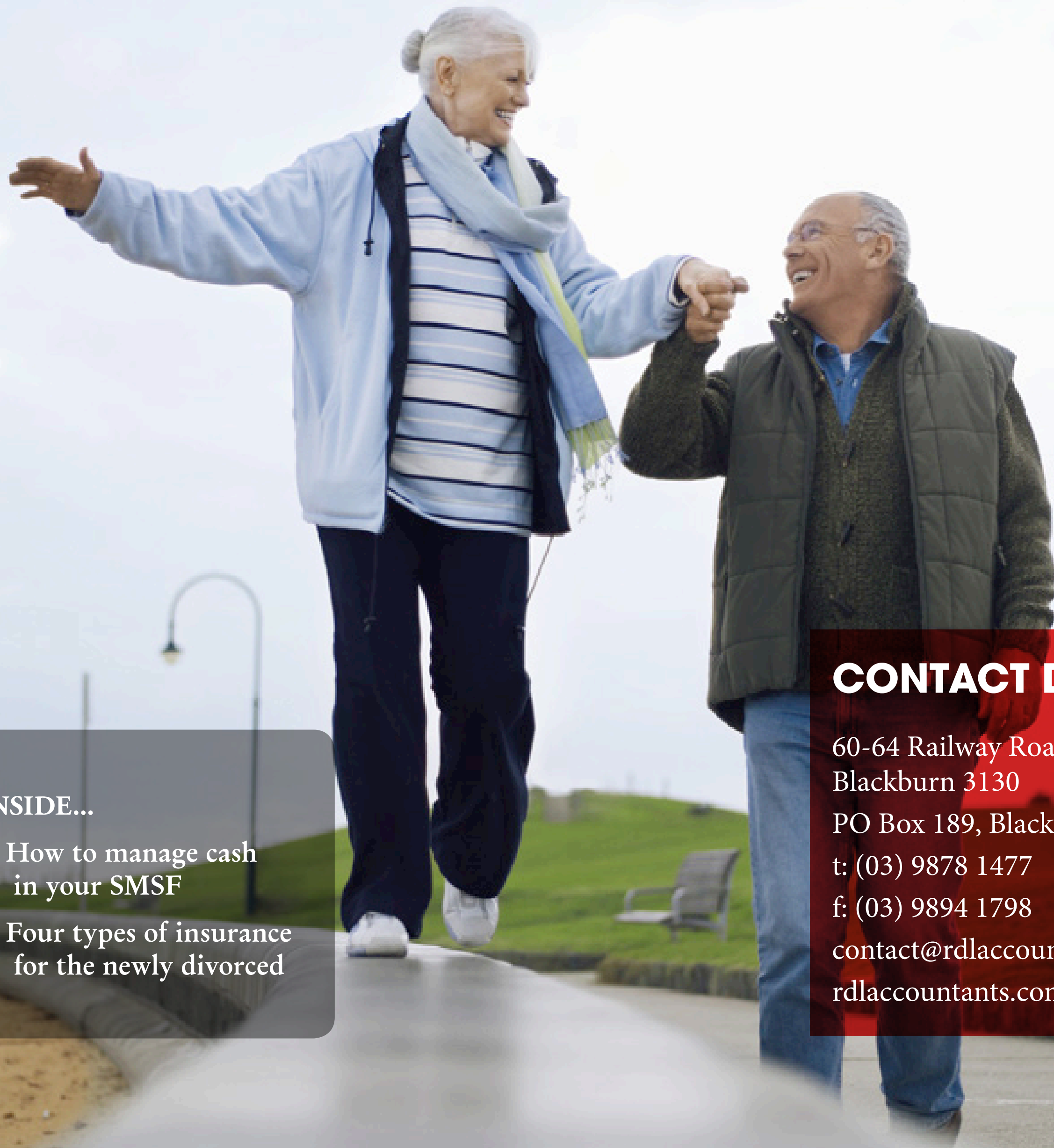
The current ACNC review is likely to address this, but Basic Religious Charities may need to be preparing for the possibility that this concession will be removed.

Claire Harris
*Manager and Not-For-Profit Specialist*

# Insights

WINTER 2018

rdl.financial planning



INSIDE...

- How to manage cash in your SMSF
- Four types of insurance for the newly divorced


## CONTACT DETAILS

60-64 Railway Road, Blackburn 3130

PO Box 189, Blackburn 3130

t: (03) 9878 1477

f: (03) 9894 1798

contact@rdlaccountants.com.au

rdlaccountants.com.au

# How to manage cash in your SMSF

A bank or cash account is the first thing that will be opened whenever a self-managed superannuation fund (SMSF) is established, so it's an important cornerstone to the successful operation of your SMSF.

Whilst there is the ability to transfer ownership of some assets from outside the super environment to your own SMSF, most transactions will flow through a cash account. If you think about it, so much of your SMSF operates though the cash account. There will be contributions made to your SMSF by members or employers (such as super guarantee or salary sacrificed amounts), there will be returns from investments such as dividends, there will be amounts paid to purchase investments, amounts paid as benefits to members in retirement, and the costs for running the fund, including insurances, administration and taxation.

So what's the best way to manage cash in your SMSF? This comes to two questions:

- How much cash do you need for operating purposes (i.e. to meet regular expenses)?
- How much is for investment purposes?

Remember that cash can be an appropriate investment for your fund, particular where it is known that it will be needed for a particular purpose in the near term, or the members themselves are concerned about market volatility and looking for a capital stable investment. In these instances, you could be considering a range of options, from an ordinary cash account (with the highest possible interest rate you can find), a term deposit (which may offer a higher interest rate than a cash account, but locks your money away for a period of time), or even some other forms of fixed interest investments such as managed funds.

financial

**How do you choose and operate a cash account for your SMSF?**

There are a range of options, with some accounts specifically developed for the SMSF environment. You could take a number of considerations into account for your SMSF's bank account.

These include:

- *What rate of interest is payable on the account?*

  In an environment of low interest rates, many transaction accounts currently pay little in interest (depending on the amount held in the account). This may not be a concern if the balance you are looking to maintain in this account is comparatively low where it is used for transactional purposes.

- *What fees are payable?*

  Like any investment, consider the fees that may be payable and compare that to the level of return you are generating. Is there also a minimum or maximum number of transactions required that impact the level of fees?

- *What features does the account come with?*

  Remembering that as super funds are generally not allowed to borrow, you may need to carefully consider whether to attach any credit card or overdraft facility to the account.

Another thing you could consider is the possibility of having two cash accounts, if that better suits your needs or circumstances. Having two cash accounts can mean that one is used for the everyday transactions of the SMSF, and another that holds the majority of the cash to be kept aside for working needs. This second account could be in a different form, such as online account, which could pay a higher rate of interest. You then have the option of moving money between the two accounts as needed.

planning

One final item to always be conscious of is to ensure that the bank accounts of the SMSF are always maintained separately to your own personal account(s). The Australian Taxation Office (ATO), as the regulator of SMSFs, has a strong focus on the separation of assets of SMSF members and trustees from personal accounts.

There are some simple steps you can consider around this. Some examples include:

- setting up SMSF accounts with a different financial institution to the one you personally bank with.
- considering ways to reduce your chances of accidentally using a keycard associated with your SMSF if you normally carry it in your wallet.
- Separating any cheque book for the SMSF from your personal cheque book.

The real key to managing cash within your SMSF comes back to taking your time. Be clear on what it is you are trying to achieve. Understand the type of account you need for specific purposes. And do your research. With so many options to choose from, we can work together to ensure your SMSF gets it right and sets you up for safe operating future around your retirement savings.

# Like to know more?

## Speak to one of our trusted RDL advisors for more information.

### Disclaimer

Information current as at December 2017. This information does not take into account your personal objectives, financial situation or needs and so you should consider its appropriateness, having regard to your personal objectives, financial situation and needs having regard to these factors before acting on it. This information provides an overview or summary only and it should not be considered a comprehensive statement on any matter or relied upon as such. This information may contain material provided by third parties derived from sources believed to be accurate at its issue date. While such material is published with necessary permission, no company in the Westpac Group accepts any responsibility for the accuracy or completeness of, or endorses any such material. Except where contrary to law, we intend by this notice to exclude liability for this material. Any super law considerations or comments outlined above are general statements only, based on an interpretation of the current super laws, and do not constitute legal advice. This publication has been prepared by BT Financial Group, a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL & Australian credit licence 233714.

financial

# Four types of insurance for the newly divorced

Financial discussions during divorce tend to focus on dividing assets and cash, but managing your insurance is an area which can make a big difference for you and your family.

Over 40% of Australian marriages fail, with nearly half of these involving families with young children[1]. While insurance protection may have been something that both parties had considered while married, it's no less important after the relationship has ended.

Insurance is about preparing for those unexpected situations which may make it difficult to care for yourself or manage your responsibilities, whether as the main caregiver or financial provider. These situations include temporary or permanent disablement, critical illness or death. Protection can be key when you are on your own, but can also make a difference to the ongoing welfare and care of children. If you already have insurance, it can be important to reassess the level of cover you have to see if it is still adequate for your new circumstances.

Here's four types of insurance cover you might consider taking out or reviewing, after a marriage or relationship breakdown.

**1. Living insurance**

Living insurance (also known as trauma insurance) can provide a lump sum payment for people suffering from one of a range of specified medical events. This can be crucial to assisting with medical and accommodation expenses if you suffer from a serious illness or injury and could also help you with more flexibility with work arrangements and continued family expenses.

**2. Income protection**

Whether you are the main caregiver or financial provider to your children, income protection can help you continue to provide stability and financial support in the event of temporary or permanent disability.

In determining your level of cover, consider the financial contribution you make for your children, and/or the cost of someone to perform childcare and household duties.

planning

### 3. Term life insurance

Term life insurance pays a lump sum benefit if you pass away or are diagnosed with a terminal illness. If you pass away, the benefit is paid to your nominated beneficiaries. It may be helpful to seek further advice on your beneficiary nomination. Where there are minor children involved, and you wish to ensure that there are ongoing financial provisions to cover their education, medical needs and care; you may need to allow for a testamentary trust in your will.

You could also use a Term Life payment to pay out a mortgage, so children are able to inherit and live in a property debt-free.

### 4. Different Total and Permanent Disability (TPD) definitions for your changing circumstances

While people tend to be more aware of occupation based TPD insurance which covers a situation where you would no longer be able to work, there are also options for homemakers.  A payment from this type of policy can be used to hire a professional to perform normal household duties if the homemaker is unable to as a result of permanent disability.

TPD insurance can be important in helping you manage your own needs, as well as supporting your children.

While the end of a relationship can be a stressful and difficult time for you and your family, reviewing and revising insurance cover so that it meets your new requirements can eliminate one area of concern for you – the ongoing needs of your children.

It can also be helpful to discuss financial protection with your former partner.  This can provide comfort to both of you that your children will have continued security and financial support.

If you would like to determine your current insurance needs and establish what policies may be suitable for you and your family, please feel free to arrange a time to speak to one of our trusted RDL advisers today.

**Disclaimer**

[1]Australian Institute of Family Studies - Marriage in Australia, and Divorce in Australia

This information does not take into account your personal objectives, financial situation or needs and so you should consider its appropriateness, having regard to your personal objectives, financial situation and needs having regard to these factors before acting on it. This article may contain material provided by third parties derived from sources believed to be accurate at its issue date. Insurance is subject to terms and conditions, and limitations and exclusions apply. Please read the Insurance's Product Disclosure Statement to see if this insurance is right for you.

financial

# planning