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CHANGING TAX LANDSCAPE FOR BUSINESS

There are some significant tax initiatives which will come into operation soon. Let's look at a few.

Instant write-offs

From 1st July 2012, small businesses (generally those with a turnover under $2m), will be able to claim an immediate deduction for the following purchases:

- Motor vehicles – An immediate write off for the first $5,000 of the cost of any (new or used) motor vehicle. As well as this claim, you will also be able to claim depreciation on the remaining amount. Say, for example, you purchased a vehicle for $30,000 in July 2012. You will be eligible to claim the first $5,000 as an immediate write off, as well as a depreciation claim of 25% on the remaining balance of $25,000.
- Other assets – An immediate write off for all assets purchased for less than $6,500.

Loss carry back scheme

This was a new initiative announced in the 2012 Federal Budget. Essentially this scheme is designed so that where a company makes a taxable loss after 1st July 2012; it will be able to "carry back" that loss to claim back some of the tax it paid in one or two of the previous years. This is very different to the traditional treatment of company tax losses which allowed the company to carry forward losses to offset against a future year's tax. The new scheme provides a more immediate benefit to such companies. There are limits – $1m maximum loss can be claimed per year ($300,000 of tax benefit), and unfortunately it will only apply to companies – Trusts are not covered.

So let's consider the following example:

XYZ Pty Ltd had been operating for number of years and for the year ended 30 June 2012, paid tax of $90,000 on a taxable income of $300,000 (i.e. company tax rate of 30%).

In the following year, due to a change of trading conditions, the company made a loss of $200,000.

In this case, the company can carry back the loss for 2013 year against the tax paid in the 2012 year and will receive a cash refund of $60,000 (i.e. 30% of $200,000).

Taxable payments reporting – Building & construction industry

From 1st July 2012, businesses in the building and construction industry will be required to report the total payments they made to each contractor for building & construction services each year. This report is due by 21st July each year and therefore the first report will be due on 21st July 2013. Some of our readers will have that feeling of déjà vu, as we head back to the days of the old PPS system.

by Arjuna Gunawardena

Arjuna is Senior Manager specialising in Tax and Business Services.

The Federal Budget and You

Some of the May Budget announcements will have an impact on our clients. Here is a summary of some of the main items:

1. The superannuation concessional contribution cap is to be $25,000 for all individuals for at least from 1st July 2012 until 30th June 2014 (the 2013 and 2014 financial years). Individuals aged 50 years or over who salary sacrifice to super should review their arrangements to ensure that they fall within this new cap. The penalty for exceeding the cap is an effective tax rate of 46.5%, which will not do much for those retirement savings.
2. The education tax offset (ETR) has been replaced by the Schoolkids Bonus for the 2012 year. These automatic payments ($410pa primary school students; $820pa secondary school students) mean that there is no longer the need to keep receipts to claim ETR. Generally speaking, families need to have children attending primary or secondary school and qualify for Family Tax Benefit (Part A) to be eligible for the Schoolkids Bonus. The first payment will be paid in June 2012.
3. The rate of Medicare Levy Surcharge, which is charged to individuals with higher income who do not have private health hospital cover, will increase from 1st July 2012 in accordance with their income level. The new rates and income thresholds are summarized below:

	Unchanged	Tier 1	Tier 2	Tier 3
Single	≤ $84,000	84,001 – 97,000	97,001 – 130,000	130,001+
Families	≤ $168,000	168,001 – 194,000	194,001 – 260,000	260,000+
Surcharge Rate	0%	1%	1.25%	1.5%

4. From 1st July 2012 the net medical expenses offset will be means tested using the above Medicare Levy surcharge thresholds (Singles ≤ $84,000; families ≤ $168,000). Those who exceed these levels will need out of pocket medical expenses exceeding $5,000 in order to make a claim, and the available rebate will be reduced from 20% to 10%. Taxpayers under these surcharge thresholds will remain unaffected.
5. The super co-contribution will reduce for the 2013 year as summarised below. This reduction will make it less attractive to make after-tax contributions to super for the government to match.

	Maximum Entitlement	Matching Rate	Lower Threshold	Higher Threshold
2011-12	$1,000	100%	31,920	61,920
2012-13	$500	50%	31,920	46,920

By David Tong

David is Manager specialising in Small Business and Self-Managed Super Funds.

Split the super – Share the benefits

Splitting of super contributions was introduced to encourage a higher earning spouse to allocate some of their super to a spouse on a lower income. Essentially, the system allows up to 85% of each year's (personal, employer, or salary sacrificed) super contribution to be allocated to the benefit of the member's spouse, while keeping the funds in the super system.

There are instances where super splitting can work to your advantage.

- You can use contribution splitting to help pay your spouse's personal insurance premiums through super, so both you and your partner may be able to afford the right level of cover.
- Splitting contributions in favour of the older spouse will provide earlier access to tax-free income payments and lump sum withdrawals.
- Conversely super splitting to a younger spouse, can potentially enable an older partner to qualify for more social security benefits. This is because superannuation assets are excluded from Centrelink's assets tests, if you are under the age pension age.
- It can even out your superannuation balances, allowing both partners access to the tax-free superannuation threshold.

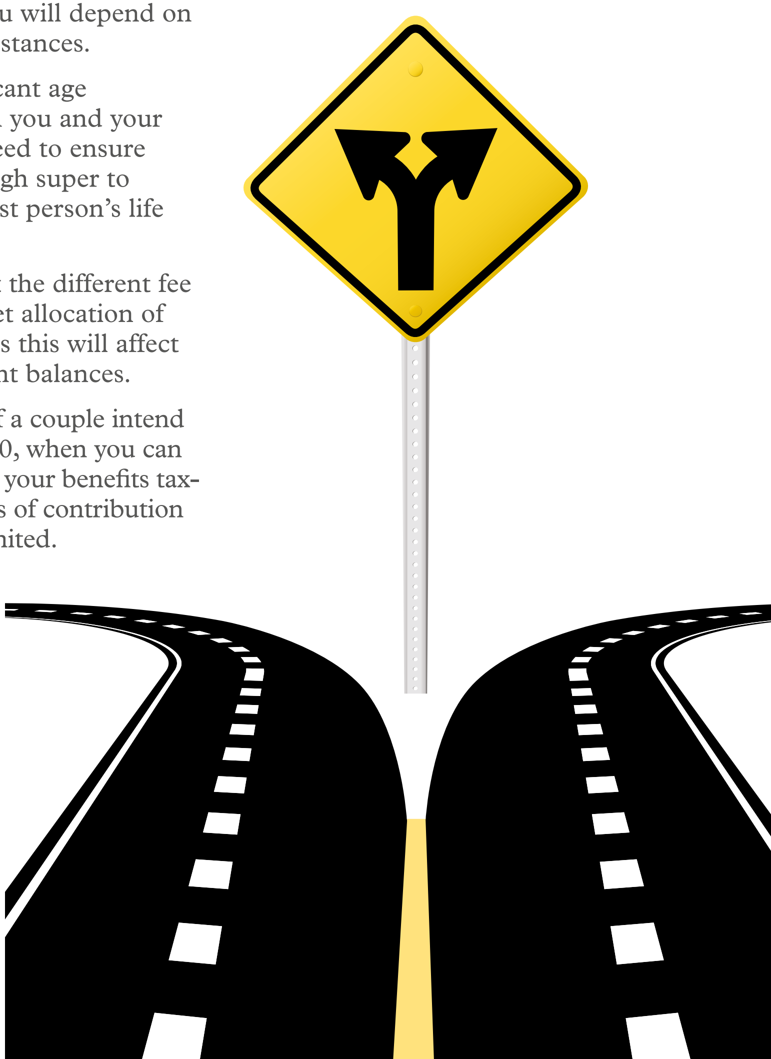
Whether superannuation contribution splitting works for you will depend on your personal circumstances.

- If there is a significant age difference between you and your partner you will need to ensure you will have enough super to last for the youngest person's life expectancy.
- You should look at the different fee structures and asset allocation of your super funds as this will affect returns and account balances.
- If both members of a couple intend to retire after age 60, when you can generally withdraw your benefits tax-free, the advantages of contribution splitting may be limited.

Please speak with your accountant or financial adviser to see if you can benefit from this strategy.

By Roslyn Schnerring

Roslyn is a Financial Planning Adviser.



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