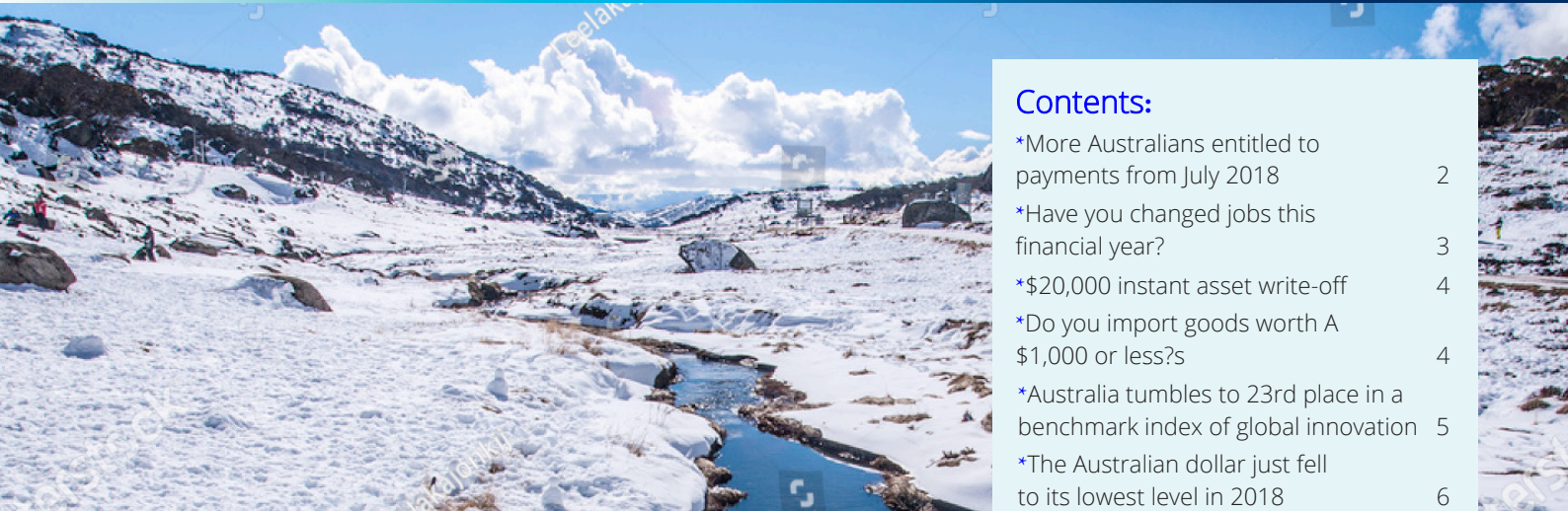


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& ASSOCIATES

ACCOUNTANTS

2018 Winter Newsletter



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The number of compliance activities the ATO will increase in 2018–19 financial year

As we approach the time to look at 2018 returns it is worthwhile looking at the Commissioner of Taxation's Annual Report which was released by the Australian Taxation Office (ATO) for the previous year.

A few key themes were evident in the report including the refinement of deductions being claimed, ongoing targeting of privately owned and wealthy groups, as well as highlighting the continued focus on the black economy.

In the 2016-17 financial year, the ATO undertook an impressive 762,000 compliance activities, including tailored letters, pre-issue reviews, audits, working with large employers, and personal visits to tax agents. These activities alone resulted in additional tax liabilities of \$893.8 million being raised and also helped in refining the strategies to increase the number of compliance activities the ATO **would** undertake in 2017-18:

- The value of all audit related compliance liabilities raised increased to \$15.6 billion, up \$1.8 billion from the previous financial year.
- The Black Economy Taskforce facilitated contact with in excess of 11,000 businesses, raising more than \$190 million.
- Privately owned and wealthy groups remained on the hit list, with \$3.3 billion raised by the ATO in liabilities.

- More than 640 million records were received for review and cross checking through the extensive data-matching program.

Setting our vision to further down the track, we suspect that a key area of interest for the next report would be cryptocurrency.

The ATO has established a taskforce (yes, another one) to clarify and enforce tax treatment for transactions associated with cryptocurrencies, specifically bitcoin. The ATO considers cryptocurrency transactions such as bitcoin akin to bartering, which is dissimilar to many overseas revenue agencies that consider it as a form of foreign currency. Bitcoin is, however, an asset for capital gains tax (CGT) purposes. The waters are still murky, yet I am sure there is more to come on this front. Despite the media whirlwind that has been cryptocurrency, the ATO has still kept a finger on the pulse in relation to other areas of interest.

In addition, Single Touch Payroll comes into effect as of 1st July 2018 for employers with 20 or more employees. Similarly, employers with under 20 employees will be affected by 1st July 2019. It appears to be a hive of activity at the ATO, with no signs of slowing down.

General Advice Warning

Information provided in this newsletter is general in nature only and does not constitute personal advice. The information has been prepared without taking into account your personal objectives or needs. Before acting on any information in this newsletter you should consider the appropriateness of the information having regard to your objectives and needs.

More Australians entitled to payments from July 2018

In March, July and September of each year, the federal government changes the rules for claiming the Age usually for the better! Currently, the Age Pension income test thresholds and the Age Pension assets test thresholds are adjusted three times a year in line with increases in the Consumer Price Index.

Effective from 1 July 2018, the income test and assets test thresholds have been increased. The increase in the Age Pension income test thresholds mean eligible Australians can earn more income and can own more assets and still be eligible for a FULL or PART Age Pension.

Note:

Age Pension rates increased, effective from 20 March 2018 (and applicable until 19 September 2018). A single person receiving a FULL Age Pension, can expect to receive \$907.60 (including Pension Supplement and Energy Supplement) a fortnight, while a couple receiving a FULL Age Pension can expect to receive \$1368.20 (combined) a fortnight, including Pension Supplement and Energy Supplement.

The investment markets have been volatile in recent times, which means the portfolios of retirees may have changed in value over the past few months (especially with the recent volatility on the Australian and international share markets). Volatile markets may also mean that previously ineligible Australians may now meet the income and assets tests, or that the level of entitlements for eligible Australians has changed.

How the Age Pension rules work:

An eligible individual must satisfy the Age Pension income test and the Age Pension assets test to receive a FULL, or PART, Age Pension. The amount of Age Pension will be based on the test that delivers the lowest amount on Age Pension entitlement. If an individual fails one of the tests, then he or she will not be eligible for the Age Pension. You must also satisfy a residency test.

A single person eligible for the FULL Age Pension can expect an annual Age Pension income (including Pension Supplement and Energy Supplement) of around \$23,598.

A couple eligible for the FULL Age Pension can expect combined annual Age Pension entitlements (including Pension Supplement and Energy Supplement) of around \$35,573.

FULL Age Pension and the assets test:

Subject to income test restrictions from 1 July 2018, a single home-owner can own up to \$258,500 in assets (excluding the home) and still receive a FULL Age Pension. A home-owning couple can own up to \$387,500 and receive a FULL Age Pension. The lower assets test threshold, for the FULL Age Pension, will be updated again from 1 July 2019. Since 1 July 2017 until 30 June 2018, a single home-owner can own up to \$253,750 in assets (excluding the home) and still receive a FULL Age Pension. A home-owning couple can own up to \$380,500 and receive a FULL Age Pension.

Part Age Pension and the assets test:

From 1 July 2018, a single home-owner can have \$561,250 in assets (excluding their home) before they lose their small PART Age Pension entitlement. From 1 July 2018, a home-owning couple can have \$844,000 in assets (excluding their home) before they lose their small PART Age Pension entitlement. Since 20 March 2018 until 30 June 2018, a single home-owner can have \$556,500 in assets (excluding their home) before they lose their small PART Age Pension entitlement. Since 20 March 2018 until 30 June 2018, a home-owning couple can have \$837,000 in assets (excluding their home) before they lose their small PART Age Pension entitlement.

AGE PENSION INCOME TEST

The LOWER threshold of the Age Pension income test, that is the income limit that entitles an individual to a FULL Age Pension, is adjusted in line with the Consumer Price Index on 1 July of each year.

FULL Age Pension and the income test:

From 1 July 2018, a single person can earn \$172 a fortnight (or the equivalent of \$4,472 a year), before having the FULL Age Pension entitlement reduced, while a couple can earn \$304 a fortnight (or the equivalent of \$7,904 a year) before having the FULL Age Pension entitlement reduced. The lower income test threshold, for the FULL Age Pension, will be updated again from 1 July 2019. From 1 July 2017 until 30 June 2018, a single person can earn \$168 a fortnight (or the equivalent of \$4,368 a year), before having the FULL Age Pension entitlement reduced, while a couple can earn \$300 a fortnight (or the equivalent of \$7,800 a year) before having the FULL Age Pension entitlement reduced.

PART AGE PENSION INCOME TEST

From 1 July 2018, the income test UPPER threshold increases by \$4.00 per fortnight (roughly \$104 a year) for singles, and \$4.00 per fortnight (roughly \$104 a year), for couples. What this means is that a single person can earn \$1,987.20 a fortnight (the equivalent of around \$51,667 a year, although assessed fortnightly), while a couple (combined) can earn \$3,040.40 a fortnight (the equivalent of roughly \$79,050 a year), before they lose the entitlement to a PART Age Pension. From 20 March 2018 until 30 June 2018, a single person can earn \$1,983.20 a fortnight (the equivalent of around \$51,563 a year, although assessed fortnightly), while a couple (combined) can earn \$3,036.40 a fortnight (the equivalent of roughly \$78,946 a year), before they lose the entitlement to a PART Age Pension.

HAVE YOU CHANGED JOBS THIS FINANCIAL YEAR?

Earned interest from a bank account you may have totally forgot about? *Missed or forgotten income* is an easy mistake to make, especially if you earned it way back at the start of the financial year. Make sure you consider all of your income sources and declare them, otherwise the ATO may catch up with you when you least expect it.

The ATO are very good at receiving data about what you earned from third parties, like employers, banks and sharing economy platforms, so the chances are the ATO already has a very good idea of what you earned and will pick up discrepancies as soon as you lodge your return.

Missed deductions: Legitimate items are either missed because you didn't know you could claim for them, or you just plain forgot which is easily done if your receipt keeping leaves a lot to be desired. Always investigate deductions before you lodge your return with either a trip to an accountant or the ATO's website and try to keep all your receipts going forward - even just popping them into an empty shoebox. You'll be grateful you made the effort when you get your Tax Statement.

One top tip we recommend for staying on top of your receipt keeping is to take a photo of each receipt as soon as you get it. Keeping electronic copies on your phone or laptop reduces the chances of losing receipts and eliminates the all-too-common problem where receipts fade to illegibility over time!



Lodging an incomplete form:

Simple things such as forgetting to include your date of birth, correct signature, or even your TFN. This results in delays because the ATO will need to send your return back and this will hold up your refund. An alternative is for you use MyTax, this is an easy way to make sure every part of the form is completed because the software literally will not let you submit your tax until every box is filled out properly.

Not including Medicare levy information:

Remember, if you qualify for a reduction in the Medicare Levy Surcharge you need to put that information on your tax return, otherwise you will be charged the full amount.

Not claiming rebates: such as spouse, medical and education rebates to name a few. While the changing thresholds of some rebates can be confusing, don't be fooled into thinking because it's too hard, you won't be bothered claiming them. They may be worth the extra time to research what you are entitled to claim.



Book your time to come and see us early about your tax planning.

\$20,000 INSTANT ASSET WRITE-OFF

If you buy an asset by 30 June and it costs less than \$20,000, you can write off the business portion in your 2018 tax return.

You are eligible to use simplified depreciation rules and claim an immediate deduction for the business portion of each asset (new or second hand) costing less than \$20,000 if:

- you have a turnover less than \$10 million (increased from \$2 million on 1 July 2016), and
- the asset was first used or installed ready for use in the income year you are claiming it in.

Assets that cost \$20,000 or more can't be immediately deducted. They will continue to be deducted over time using the general small business pool. You write off the balance of this pool if the balance (before applying any other depreciation deduction) is less than \$20,000 at the end of an income year.



The \$20,000 threshold applied from 12 May 2015 and will reduce to \$1,000 from 1 July 2018.

In the latest Federal Budget, there is a proposal to extend the \$20,000 instant asset write-off threshold to 30 June 2019. This change is not law yet.

Do you import goods worth A\$1,000 or less?



From 1 July 2018 overseas businesses that meet the GST registration threshold of A\$75,000 will need to charge GST on goods that are:

- less than A\$1,000 (low value)
- imported into Australia
- not GST-free (such as most basic food, alcohol, tobacco, or tobacco products).

How will this affect you?

You will be charged GST on low value goods that you import if you are:

- not registered for GST, or
- are GST registered but importing goods for personal use.

You should not be charged GST if you:

- are registered for GST
- import the low value goods for business use in Australia, and
- provide your ABN to the supplier and a statement that you are registered for GST.

If you're charged GST incorrectly you should contact the supplier to let them know that you're registered for GST, and request a refund.

Note that not all receipts that have GST applied will be tax invoices. They will need to contain an ABN to be considered a tax invoice. Overseas suppliers may be registered in the simplified GST system and have an ARN instead of an ABN.

Australia tumbles to 23rd place in a benchmark index of global innovation

This time last year it seemed like the nation was transitioning to a slower economy as the vestiges of the mining boom and the memory of big Budget surpluses receded into the past, and the ideas boom has yet to deliver any significant benefits. We were dealing with growing Budget deficits and the continued need for Budget repair, resigning ourselves to piecemeal policies that tinkered at the edges in place of the grand promise of sweeping tax reform — albeit that GST was not to be touched — that would make taxes lower, simpler and fairer.

Although it may be premature to expect any demonstrable results from the innovation agenda, it is notable that in 2017 Australia fell from 19th to 23rd position on the *Global Innovation Index 2017*. The ranking is based on inputs and outputs. Although Australia is ranked 12th based on its inputs — that is, based on an analysis of the country institutions, human capital and research, infrastructure, market and business sophistication — it is 30th on the output side. Output is measured on knowledge and technology and creative metrics.

More recently, the revelations from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry — whose establishment was for a long time resisted by the Prime Minister and others in the Federal Government (Government) — about the unethical, and potentially criminal, conduct of some of our biggest financial institutions would have dissipated any public support for a reduction in corporate taxes for them.

To be fair, these scandals were aired over the last 12 months but the shocking conduct took place over a number of years under the watch of other Prime Ministers and Governments. To gain some perspective about how Australia compares relative to other countries, we only need to look at the decline in Australia score on Transparency International annual *Corruption Perception Index*. Since 2012, Australia has managed to slip eight points, however we are still ranked as the 13th least corrupt nation.

Even with the distraction of having to sort out the problems of their own making, our members of Parliament have pushed ahead with implementing some of the agenda that was set at the 2017/2018 Budget. The theme of last Budget was putting Australia on a journey to broader-based growth and securing more and better paying jobs for Australians.

The following measures announced at the 2017/18 Budget are now law:

Taxpayers can — from 1 July 2017 — save money inside their superannuation fund and use up to \$30,000 for the purchase of their first home after 1 July 2018.

Individuals aged over 65 can contribute the proceeds of downsizing the family home into superannuation — but not until 1 July 2018.

Denying deductions for travel expenses relating to investment properties for all but certain excluded entities such as corporate tax entities, superannuation funds that are not SMSFs and other public investment entities — from 1 July 2017.

Limiting deduction for depreciation on plant and equipment in residential rental properties to expenditure actually incurred by the investor — from 1 July 2017.

Requiring purchasers of new residential premises or subdivisions of potential residential land to withhold from the contract price an amount on account of GST and remit it to the ATO on or before settlement — from 1 July 2018.

Requiring foreign owners of residential dwellings to pay an annual fee equivalent to the relevant foreign investment application fee for the property purchase if the dwelling is not occupied or available on the rental market for at least six months per year — for properties acquired from 7.30 pm (AEST) on 9 May 2017.



THE AUSTRALIAN DOLLAR JUST FELL TO ITS LOWEST LEVEL IN 2018

Selling the Australian dollar one indicator that expresses a view the world is a riskier place today than it was yesterday.

Judging by the heavy selling over the past few months this is currently the case.

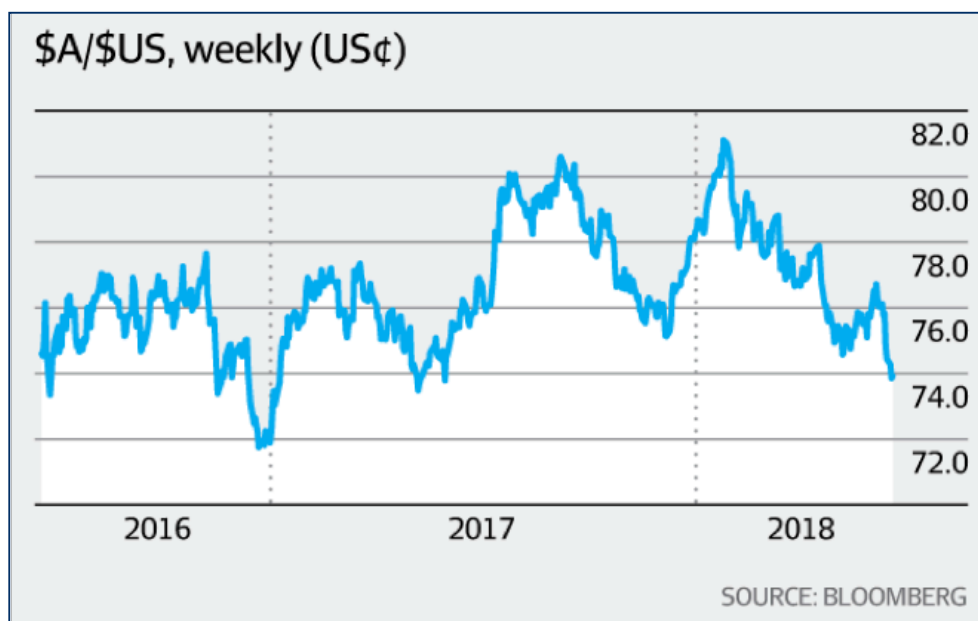
In mid-June 2018 the Australian dollar was trading at around its lowest level in more than a year, falling to US73.49¢ overnight before recovering to trade at US73.88¢.

This is positive for clients who are exporters but challenging for those of you that are importers.

If you are a heavy importer and think the current falls in the Aussie are only the start of the price fall it may be time to talk to your bank or an exchange trader about buying some hedging positions.

The current loss is argued to be as a result of trade tensions between the US and China this week and a diverging interest rate outlook between Australia and the US. There is an even split amongst the bankers whether this is a short term drop and a bottom or as the **below** chart shows the Aussie is close to a 2 year low and about to retest the levels of a few years ago when many argued the dollar may drop towards 60 cents again.

Central banks last week stated that it is more likely global interest rates will rise than fall but in Australia the case is less likely for any short term rises.



On the housing front rate rises are no longer required to slow housing prices, we are already seeing a pull back.

Debt as a percentage of household income is at record levels so any rate rise will place heavy pressure on the economy.

RBA signals have been consistent in pointing to glacial progress on interest rates. The RBA has made it clear that rates are not a near-term story.

The latest move in the Australian dollar highlights that, in currency markets, countries that are net debtors still suffer when risk aversion rises.



- 6 *Australia is one of the big net debtors of the world. It owes the rest of the world around \$1 trillion," from a combination of government, corporate and bank debt.*
- 6 *Relying on the kindness of strangers means that Australia owes the rest of the world a lot more than they owe us.*
- 6 *When risk goes off, the worry is that international investors are more inclined to keep their money at home.*

Commonwealth Bank's chief currency strategist Richard Grace said that increased support for the US dollar was also playing a part in the Australian dollar's weakness.

- 6 *The US economy has strengthened by more than expected,' he said. Last week's Federal Reserve meeting made that clear, with the Fed upgrading the economic outlook and lifting its interest rate guidance.*

At the same time, the European Central Bank downgraded growth and said it expects interest rates to remain on hold for longer than previously expected.

That impacts confidence and business investment and can feed into slower growth,' an environment that typically benefits the US dollar.

Those businesses who are considering exporting will be well positioned to make the move if the dollars spiral was to continue.

