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Tax incentives to promote innovation

Innovative companies with an interest in getting involved in the "ideas boom" need to be aware of the Government's proposed tax incentives to help promote innovation. The Government has released draft legislation to implement more of the proposed tax measures announced as part of its National Innovation and Science Agenda (released in December 2015).

One of the tax measures will allow companies that have changed ownership to access past year tax losses if they satisfy a similar business test. Under the current law, companies that have changed ownership must satisfy the same business test to access past year tax losses. This measure is designed to encourage entrepreneurship by allowing loss-making businesses to seek out new opportunities to return to profitability.

The other measure proposes to allow taxpayers the choice to either self-assess the effective life of certain intangible depreciating assets (such as patents or copyrights) or use the statutory effective life. The current law only provides an effective life set by statute. According to the Government, changing the tax treatment for acquired intangible assets will make startups' intellectual property and other intangible assets a more attractive investment option.

Car expenses and special arrangements for the 2016 FBT year

The ATO has released guidance about using the cents per kilometre basis for claiming car expenses and making fringe benefits calculations.

From 1 July 2015, separate rates based on the size of the engine no longer apply. Taxpayers can use a single rate of 66 cents per kilometre for all motor vehicles for the 2015–2016 income year. The Tax Commissioner will determine the rate for future income years. However, the ATO acknowledges that there has been uncertainty about the correct rate to apply for the 2016 FBT year, and has advised of a special arrangement for 2016 whereby it will also accept 2016 FBT returns based on the 2014–15 rates (which are 65, 76 or 77 cents per kilometre depending on the engine capacity of the employee's car).

TIP: For future FBT years, which end on 31 March, the ATO said 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 the Commissioner determines for the 2016–2017 income year.

Holiday homes: tax considerations

Australians who let their holiday homes for only part of the year should be aware of the ATO's compliance focus on excessive holiday home deduction claims.

The ATO has released guidance on claiming deductions in relation to holiday homes. If a taxpayer rents out their holiday home, they can only claim expenses for the property based on the proportion of the income year when the property was rented out or was genuinely available for rent. Notably, the new guidance indicates what is meant by "genuinely available for rent". According to the ATO, factors that may indicate a property is not genuinely available for rent include that:

- it is advertised in ways that limit its exposure to potential tenants (for example, the property is only advertised by word of mouth);
- the location of, condition of or accessibility to the property mean that it is unlikely tenants will seek to rent it;
- there are unreasonable or stringent conditions on renting out the property that restrict the likelihood of the property being rented out; or
- interested people are turned away without adequate reasons.

TIP: Although it is always prudent to check things over before tax time, holiday home owners may particularly want to take the opportunity to review their circumstances and ensure that any deduction claims are made correctly before "the taxman cometh".

Liability limited by a scheme approved under Professional Standards Legislation

Individuals caught in "Panama Papers" leak

The ATO has advised that it is investigating more than 800 individuals after a leak of taxpayer data in relation to a Panamanian law firm.

Deputy Commissioner Michael Cranston said that since the completion of the offshore disclosure initiative "Project DO IT", the ATO has ramped up its compliance work to deal with taxpayers who have failed to disclose offshore income and assets.

Mr Cranston said the ATO has been analysing the latest data against information these taxpayers had reported and against the information the ATO already has. The information the ATO received regards some taxpayers who it had previously investigated, as well as a small number of taxpayers who disclosed their arrangements to the ATO under Project DO IT. The information also regards a large number of taxpayers who have not previously come forward, including high-wealth individuals, and Mr Cranston said the ATO is already taking action on those cases.

ATO safe harbour for SMSF borrowings

The ATO has released guidelines that set out the "safe harbour" terms on which trustees of self managed superannuation funds (SMSFs) may structure related-party limited recourse borrowing arrangements (LRBAs) consistent with an arm's-length dealing. The ATO generally takes the view that an SMSF may derive non-arm's length income (taxable at 47%) if the terms of an LRBA are not consistent with an arm's-length dealing. If an LRBA is structured in accordance with the ATO's guidelines, it will accept that the non-arm's length income (NALI) rules do not apply.

TIP: The ATO previously announced a grace period whereby it will not select an SMSF for review provided that arm's-length terms for its LRBA are implemented by 30 June 2016, or the LRBA is brought to an end before that date. Importantly, the ATO's guidelines require arm's-length payments of principal and interest to be made for 2015–2016 (including where the arrangement is brought to an end). If an LRBA does not meet all of the safe harbour terms, it does not mean that the borrowing is deemed not on arms'-length terms. Rather, trustees who do not meet the safe harbour terms will need to otherwise demonstrate that their arrangement was entered into and maintained consistent with arm's-length terms.

ATO's data-matching net widens

The ATO has announced details of its various data-matching programs. Most of the announcements regard extensions to existing data-matching programs. Records obtained through the programs will be electronically matched with ATO data holdings to identify non-compliance with registration, lodgment, reporting and payment obligations under taxation laws. The following are key points:

- The ATO will acquire details of registered voters on the Commonwealth electoral roll from the Australian Electoral Commissioner. This data-matching program aims to identify taxpayers who are not registered with the ATO when they are required to be.
- The ATO will acquire data from businesses that it visits as part of its employer obligations compliance program during the 2016–2017, 2017–2018 and 2018–2019 financial years. This program aims to obtain intelligence to identify risks and trends about contractors who may not be complying with their taxation obligations.
- The ATO will acquire data relating to electronic payments made to merchants through specialised payment systems for the 2014–2015, 2015–2016 and 2016–2017 financial years. This data will be used to detect unreported income and to identify those operating a business but failing to meet their registration, lodgment and payment obligations.

Important: Clients should not act solely on the basis of the material contained in Client Alert. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. Client Alert is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.

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PERSONAL TAXATION

Personal tax rates: small tax cut from 1 July 2016

From 1 July 2016, the 32.5% personal income tax threshold will increase from $80,000 to $87,000 in an attempt to address tax bracket creep. The Government expects this will stop around 500,000 taxpayers facing the 37% marginal tax rate and prevent average full-time wage earners from moving into the second-top tax bracket until 2019–2020.

Budget deficit levy not extended

In the lead-up to the Budget, the Treasurer indicated that the 2% Budget deficit levy (tax) on incomes over $180,000 would not be extended beyond its initial three years. The levy applies for three years from 1 July 2014, and is due to cease at the end of the 2016–2017 financial year.

BUSINESS TAXATION

Company tax rate to reduce to 25% by 2026–2027

The Government intends to reduce the company tax rate to 25% over the next 11 income years.

The measure will be phased in from 1 July 2016, depending on company size (ie aggregated annual turnover). Small businesses will benefit sooner. The phase-in for all companies will be completed in the 2026–2027 income year.

Franking credits will continue to be calculated in the usual manner, by reference to the amount of tax paid by the company making the distribution.

Small business threshold to increase to $10 million

The small business entity threshold will increase from $2 million to $10 million from 1 July 2016.

As a result, a business with an aggregated annual turnover of less than $10 million will be able to access a number of small business tax concessions, including:

- the simplified depreciation rules;
- the simplified trading stock rules;
- a simplified method of paying PAYG instalments calculated by the ATO;
- the option to account for GST on a cash basis and pay GST instalments as calculated by the ATO;
- immediate deductibility for various start-up costs;
- a 12-month prepayment rule; and
- the more generous FBT exemption for work-related portable electronic devices.

CGT concessions

The threshold changes will not affect eligibility for the small business CGT concessions, which will only remain available for businesses with annual turnover of less than $2 million or that satisfy the maximum net asset value test (and other relevant conditions such as the active asset test).

Reduced tax rates for small business

The company tax rate for small business entities will reduce to 27.5% (from 28.5%) from the 2016–2017 income year. The rate is set to reduce further to 27% in 2024–2025 and then by one percentage point per year until it reaches 25% in 2026–2027.

Unincorporated businesses

To complement the company tax rate reductions, the tax discount (or tax offset) for unincorporated small businesses (eg sole traders and partners in a partnership) will increase over a 10-year period from 5% to 10%.

The tax discount will increase to 8% on 1 July 2016, remain constant at 8% for eight years, then increase to 10% in 2024–2025 and13% in 2025–2026, reaching a new permanent discount of 16% in 2026–2027. The maximum value of the discount will remain at $1,000.

From 1 July 2016, access to the discount will be extended to individual taxpayers with business income from an unincorporated business that has an aggregated annual turnover of less than $5 million (the current threshold is $2 million).

GST

GST and importation of low-value goods

From 1 July 2017, GST will be imposed on goods imported by consumers, regardless of the goods' value. The GST liability will be imposed on overseas suppliers, using a vendor registration model. This means suppliers with Australian turnover of $75,000 or more will be required to register for, collect and remit GST for all goods supplied to consumers in Australia.

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

GST small business taxpayers: election to use cash basis

From 1 July 2016, the Government proposes to extend the option for taxpayers to use the cash basis of accounting for GST to small businesses with an annual turnover of less than $10 million. Such entities would be able to account for GST on a cash basis and pay GST instalments as calculated by the ATO.

SUPERANNUATION

Superannuation pension phase: $1.6 million transfer balance cap for retirement accounts

From 1 July 2017, the Government proposes to introduce a transfer balance cap of $1.6 million on the total amount of accumulated superannuation an individual can transfer into a tax-free “retirement account“ (also known as retirement phase or pension phase). Subsequent earnings on these pension transfer balances will not be restricted.

This transfer balance cap for amounts transferred into pension phase is intended to limit the extent to which the tax-free benefits of retirement phase accounts can be used for tax and estate planning.

Non-concessional contributions: $500,000 lifetime cap from Budget night

A lifetime non-concessional contributions cap of $500,000 is effective from 7.30 pm (AEST) on 3 May 2016. The lifetime non-concessional cap (indexed) will replace the existing cap of up to $180,000 per year (or $540,000 every three years under the bring-forward rule for individuals under 65).

The $500,000 lifetime cap will take into account all non-concessional contributions made on or after 1 July 2007. Contributions made before 7.30 pm AEST on 3 May 2016 cannot result in an excess of the lifetime cap. However, excess non-concessional contributions made after commencement will need to be removed or be subject to penalty tax. The cap will be indexed to average weekly ordinary time earnings (AWOTE).

Concessional contributions cap cut to $25,000 from 1 July 2017

The annual concessional contributions cap will be reduced to $25,000 for all individuals, regardless of age, from 1 July 2017. The cap will be indexed in line with wages growth.

The concessional contributions cap is currently set for the 2015–2016 and 2016–2017 income years at $30,000 for those under age 49 on 30 June of the previous income year (or $35,000 for those aged 49 or over on 30 June of the previous income year).

Members of defined benefit schemes will be permitted to make concessional contributions to accumulation schemes. However, the $25,000 cap will be reduced by the amount of their “notional contributions”.

Concessional contributions catch-up for account balances under $500,000

From 1 July 2017, individuals with a superannuation balance less than $500,000 will be allowed to make additional concessional contributions for “unused cap amounts” where they have not reached the concessional contributions cap in previous years. Unused cap amounts will be carried forward on a rolling basis for five consecutive years. Only unused amounts accrued from 1 July 2017 will be available to carry forward. The measure will also apply to members of defined benefit schemes.

Superannuation contributions tax (extra 15%) for incomes $250,001+

The income threshold above which the additional 15% Div 293 tax cuts in for superannuation concessional contributions will be reduced from $300,000 to $250,000 from 1 July 2017.

Currently, individuals above the high income threshold of $300,000 are subject to an additional 15% Div 293 tax on their “low tax contributions” (essentially concessional contributions), effectively doubling the contributions tax rate for concessional contributions.

The extra 15% Div 293 tax does not apply to concessional contributions which exceed an individual's concessional contributions cap (proposed to be set at $25,000 for all taxpayers from 1 July 2017). Such excess concessional contributions are effectively taxed at the individual’s marginal tax rate. The maximum amount of Div 293 tax payable each year will be limited to $3,750 (ie 15% of the $25,000 cap) from 1 July 2017.

Tax deductions for personal super contributions extended

From 1 July 2017, all individuals up to age 75 will be eligible to claim an income tax deduction for personal super contributions. This effectively allows all individuals, regardless of their employment circumstances, to make concessional super contributions up to the concessional cap.

To access the tax deduction, individuals must lodge a notice of intention to claim the deduction (generally before they lodge their income tax return) with their super fund or retirement savings provider. Individuals will be able to choose how much of their contributions to deduct.

Individuals that are members of certain prescribed funds would not be entitled to deduct contributions to those schemes.

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