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LODGING TAX RETURNS

Please bring in your information ASAP if you have not lodged your 2016 and prior tax returns.

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Deductibility of airport lounge memberships

The ATO has confirmed that the cost to a business taxpayer of a yearly airport lounge membership (e.g. Qantas Club, Virgin Lounge) that will be used by its employees is ordinarily deductible, and should not give rise to any FBT liability for the employer (even if the majority of (or indeed *only*) use of the airport lounge membership is for private purposes).

Personal income tax cuts

The following are the rates for adult residents for the 2016/17 income year (i.e. from 1 July 2016).

Taxable income	Tax on this income
$0 – $18,200	Nil
$18,201 – $37,000	19c for each $1 over $18,200
$37,001 – $87,000	$3,572 plus 32.5c for each $1 over $37,000
$87,001 – $180,000	$19,822 plus 37c for each $1 over $87,000
$180,001 and over	$54,232 plus 45c for each $1 over $180,000

The above rates do not include the temporary budget repair levy (due to expire on 30 June 2017), nor the Medicare levy of 2%.

The ATO has updated the tax tables and PAYG withholding tax schedules (and their online tax withheld calculator) to reflect these changes.

ATO exposes dodgy deductions

With over eight million Australians claiming work-related expenses each year, the ATO is reminding people to make sure they get their deductions right this tax time.

Assistant Commissioner Graham Whyte said that, in 2014/15, the ATO conducted around 450,000 reviews and audits of individual taxpayers, leading to revenue adjustments of over $1.1 billion in income tax.

"Every tax return is scrutinised using increasingly sophisticated tools and data analytics developed (by) the ATO. This means we can identify and review income tax returns that may omit information or contain unreasonable deductions" Mr Whyte said.

The ATO also set out some case studies, which provide a fascinating insight into the ATO's methods, including:

- A medical professional who made a claim for attending a conference in America, and provided an invoice for the expense, but when the ATO checked, it found that the taxpayer was *still in Australia* at the time of the conference (the claims were disallowed and the taxpayer received a substantial penalty); and

- A taxpayer who claimed deductions for car expenses, but the ATO found they had recorded kilometres in their log book on days where there was *no record of the car travelling on the toll roads*, and further inquiries identified that the taxpayer was out of the country. Their claims were also disallowed.

Deductibility of expenditure of a commercial website

The ATO has released a public taxation ruling covering the ATO's views on the deductibility of expenditure incurred in acquiring, developing, maintaining or modifying a website for use in the carrying on a business.

Importantly, if the expenditure is incurred in **maintaining** a website, it would be considered 'revenue' in nature, and therefore generally deductible upfront.

This would be the case where the expenditure relates to the preservation of the website, and does not:

- alter the functionality of the website;
- improve the efficiency or function of the website; or
- extend the useful life of the website.

However, if the expenditure is incurred in acquiring or developing a commercial website for a new or existing business, or even in modifying an existing website, it would generally be considered capital in nature (in which case an outright deduction cannot be claimed).

Improve superannuation balances of low income spouses

From 1 July 2017, the government will increase access to the low income spouse superannuation tax offset by raising the income threshold for the low income spouse to $37,000 (from $10,800). The offset is gradually reduced for income above this level and completely phases out at income above $40,000.

The low income spouse tax offset provides up to $540 per annum for the contributing spouse.

Tax deductions for personal superannuation contributions

From 1 July 2017, the government will change the law to allow **all** individuals under age 75 to claim an income tax deduction for personal superannuation contributions. Individuals who are, for example, partially self-employed and partially wage & salary earners, and individuals whose employers do not offer salary sacrifice arrangements will benefit from the proposed changes.

However, individuals that are members of certain prescribed funds would *not* be entitled to deduct contributions to those schemes (prescribed funds include all untaxed funds, all Commonwealth defined benefit schemes, and certain defined benefit schemes that choose to be prescribed).

Under current law, a tax deduction for personal superannuation contributions is broadly limited to self-employed individuals, and substantially self-employed individuals (i.e. those that satisfy the '10% test').

Changes to the 'high income contribution rules' (Division 293)

From 1 July 2017, the government will lower the Division 293 threshold (i.e. the point at which high income earners pay *additional* contributions tax of 15%) **from $300,000 to $250,000.**

Consistent with current law, the additional 15% tax will be imposed on the whole amount of the contributions, up to the concessional cap, if 'income' for Division 293 purposes is above the threshold. Otherwise, the additional tax is only imposed on the portion of the contribution that takes the individual over the threshold.

The lower Division 293 'income' threshold will also apply to members of defined benefit schemes and constitutionally protected funds currently covered by the tax.

Reducing the concessional contributions cap

From 1 July 2017, the government will lower the annual cap on concessional superannuation contributions to **$25,000.** Until this time, the existing concessional contributions caps, being $30,000 for those aged under age 50 years, and $35,000 for those aged 50 years and over, will apply.

Introduction of a $1.6 million 'superannuation transfer balance cap'

From 1 July 2017, the government will introduce a **$1.6 million** 'superannuation transfer balance cap' on the total amount of accumulated superannuation an individual can transfer into pension phase. Subsequent earnings on this pension balance will not be restricted.

By way of background, under current law, if a fund member moves from accumulation phase into **'pension phase',** earnings on assets supporting the pension (income tax and capital gains) are **tax-free** in the fund (assuming no non-arm's length income and that the asset in question is a 'segregated pension asset' or the fund is wholly in 'pension phase'). Furthermore, there is **no limit** on the amount of accumulated superannuation that an individual can transfer into pension phase.

Under the change, the 'superannuation transfer balance cap' will index in $100,000 increments in line with the consumer price index and a proportionate method will apply to determine the percentage of the cap space an individual has available at any point in time (e.g. if an individual has previously used up 75% of their cap they will have access to 25% of the current (indexed) cap). Note that, subsequent fluctuations in the pension balance due to earnings growth and pension payments are not considered when calculating cap space.

Under the changes, if an individual accumulates amounts in *excess* of $1.6 million, they will be able to maintain this excess amount in an accumulation phase account (where earnings will be taxed at the concessional rate of 15%).

Importantly, fund members already in pension phase with balances *above* $1.6 million will be required to reduce this balance to $1.6 million by 1 July 2017 (e.g. it seems such action may include the withdrawal of funds from the superannuation environment, or return a portion of the balance held in pension to accumulation phase via a partial commutation).

If the $1.6 million cap is exceeded, the excess amount plus earnings on the excess will be subject to a tax.

In regards to the cap for members of defined benefit schemes, the annual pension is multiplied by 16. This amount is then included in the $1.6 million cap.

Tax time is prime time for scams

The ATO is reminding Australians to be on the lookout for tax-related scams during tax time, as scammers are particularly active because of the large number of people lodging their tax returns.

Assistant Commissioner Graham Whyte said that, while most people were able to identify scams, it is important to remain alert during tax time.

For example, although the ATO makes thousands of outbound calls to taxpayers a week, there are some key differences between a legitimate call from the ATO and a call from a potential scammer.

"We would never cold call you about a debt; we would never threaten jail or arrest, and our staff certainly wouldn't behave in an aggressive manner. If you're not sure, hang up and call us back on 1800 008 540".

Limited Licence

Under new rules effective from 1 July 2016, accountants are required by ASIC to have a limited licence to advise on all aspects of superannuation. We have obtained this limited licence so we can continue to advise you on any questions you have regarding super, including establishing an SMSF.