



It's Tax Time again!

This edition of TaxWise outlines some tax changes for 2018-19 that should be considered by small businesses when preparing tax returns for 2018-19. There are also some tax tips and lodgment dates that businesses may find helpful when preparing returns. Focus areas that the ATO will be looking at have also been listed.

Tax changes for 2019

There have been some tax changes for small businesses for 2018-19 in relation to:

- Expanding accelerated depreciation;
- Increasing access to company losses;
- Single Touch Payroll; and
- International tax changes.

Expanding accelerated depreciation

The Federal Budget raised the instant asset write-off threshold to \$30,000 from Budget night and expanded the number of businesses who could access the write-off to businesses with turnover less than \$50 million. The write-off will be accessible to eligible businesses until 30 June 2020.

The lifting of the threshold and extending the availability of the concession to many more businesses is most certainly a positive step. However, it does leave businesses in a situation where they will have to deal with three different thresholds in the 2019 income year if they want to actually claim the offset.

The thresholds will apply in the following way in the 2019 income year:

- assets costing less than \$20,000 from 1 July 2018 to 28 January 2019 (for businesses with turnover less than \$10 million);
- assets costing less than \$25,000 from 29 January 2019 to 2 April 2019 (7.29pm) (for businesses with turnover less than \$10 million); and
- assets costing less than \$30,000 from 2 April 2019 to 30 June 2019 (7.30pm) (for businesses with turnover less than \$50 million).

It is important to note that the instant asset write-off threshold now includes businesses with a turnover from \$10 million to less than \$50 million.

Tip! Such a simple concession so favourable to small business is unnecessarily complicated for the 2019 income year. If you don't get the timing or the amount right, you could miss out. You should ask your tax adviser to make sure you don't miss out.

Increasing access to company losses: 'Similar business test'

Most businesses will be familiar with the 'same business test'. However, from 1 March 2019, there is also a more flexible test called the 'similar business test'.

The purpose of these tests is to determine whether a company's tax losses and net capital losses from previous income years can be used.

The new test should make it easier to access past year losses when companies enter into new transactions or business activities.

Under the similar business test, a company (and some trusts) can access losses following a change in ownership where its business is *similar* having regard to various factors, including the:

- assets used by the business to generate assessable income;
- activities and operations used to generate assessable income;
- identity of the business; and
- changes resulting from the development or commercialisation of assets, products, processes, services, or marketing or organisational methods.

Single Touch Payroll

Do you have employees? Are you ready for Single Touch Payroll?

If an employer reports through Single Touch Payroll, they are not required to provide a payment summary to their employees. Not all employers are reporting through this system yet. It only became compulsory for smaller employers from 1 July 2019.

Under this system, many individuals will no longer receive a Payment Summary (Group Certificate) from their employer due to the introduction of Single Touch Payroll. Individuals will find they have an 'Income Statement' through their myGov account.

Tip! Small businesses need to be ready for Single Touch Payroll.

International tax changes

Hybrid mismatch rules

There have been changes to the hybrid mismatch rules. These rules are designed to prevent entities that are liable to income tax in Australia from avoiding income tax or obtaining global double tax benefits through hybrid mismatch arrangements that exploit differences in the tax treatment of an entity or instrument under the laws of two or more tax jurisdictions.

Thin capitalisation

There have also been changes to the thin capitalisation provisions. These rules prevent certain debt deductions (eg for interest expenses). The changes are designed to prevent double gearing structures. Double gearing structures use layers of 'flow-through' entities (such as trusts and partnerships) to issue debt against the same underlying asset.

Tip! These changes are complex. If they apply to your business, you should seek advice from your tax adviser. ■



5 tax tips for small businesses

A few tips that small businesses should consider when preparing their tax returns are:

1. Check if you are applying the **correct company tax rate**;
2. Check if you are entitled to the **small business income tax offset**;
3. Check if you are entitled to a **small business CGT concession**;

4. Ensure that deductions are only claimed for **business (not personal) expenses**; and
5. **Keeping the right records** to support your claims.

Correct company tax rate

Companies will pay tax at the full rate of 30% or at the lower rate of 27.5% if certain eligibility requirements are met.

The ATO has published a useful table to help companies determine which tax rate is applicable.

Income year	Aggregated turnover threshold	Tax rate for base rate entities* under the threshold	Tax rate for all other companies
2017–18	\$25m	27.5%	30.0%
2018–19 to 2019–20	\$50m	27.5%	30.0%
2020–21	\$50m	26.0%	30.0%
2021–22	\$50m	25.0%	30.0%

A base rate entity is a company that:

- has an aggregated turnover less than the aggregated turnover threshold – which is \$50 million for the 2018-19 income year; and
- 80% or less of their assessable income is base rate entity passive income (eg corporate distributions, royalties, rent, interest income).

Tip! Small businesses should make sure whether the 30% rate or 27.5% rate applies to them.

Small business income tax offset

The small business income tax offset can reduce the tax you pay by up to \$1,000 each year.

To be eligible, you must be carrying on a small business as a sole trader or have a share of net small business income from a partnership or trust. The ATO has published the following table outlining the relevant turnover thresholds.

Income year	Aggregated turnover threshold	Rate of offset	Maximum offset
2015–16	\$2m	5%	\$1,000
2016–17 to 2019–20	\$5m	8%	\$1,000

2020–21	\$5m	13%	\$1,000
2021–22 and onwards	\$5m	16%	\$1,000

When determining whether you are entitled to the small business income tax offset, you need to determine your aggregated turnover.

Your aggregated turnover is generally your annual turnover plus the annual turnover of any business connected or affiliated with you.

Small business CGT concessions

There are four small business CGT concessions that may allow a small business to disregard or defer some or all of a capital gain from an active asset used in a small business.

If your business has disposed of an eligible active asset used in a business for a profit, you should consider if these concessions can apply to reduce the amount of tax payable by the business.

Broadly, these concessions are available when you dispose of an active asset and:

- you're a small business with an aggregated annual turnover of less than \$2 million; or
- your asset was used in a closely connected small business; or
- you have net assets of no more than \$6 million (excluding personal use assets such as your home, to the extent that it has not been used to produce income).

Tip! Your tax adviser can assist you in determining whether these conditions are satisfied. For example, your tax adviser can assist you in determining whether the asset in question satisfies the active asset test.

If available, these concessions can be very beneficial to small businesses. The concessions are:

1. 15-year exemption – no assessable capital gain on the sale of active assets owned by a business for 15 years where certain other conditions are satisfied (eg you are over 55 or retiring).
2. 50% active asset reduction – capital gains on the sale of active assets can be reduced by 50%.
3. Retirement exemption – Capital gains from the sale of active assets are exempt (subject to a lifetime limit of \$500,000). If you're under 55, other conditions apply.
4. Rollover – defer capital gains made on the sale of active assets for two years (or longer in certain circumstances).

Business expenses

Generally, a small business can deduct expenses that are related to earning assessable income and are incurred to run the business.

Common expenses that may be deducted include:

- salaries;
- rent or mortgage interest expenses;

- running expenses – eg lighting, phone, internet, stationery; and
- some travel expenses.

The line between business and personal expenses can easily be blurred when it comes to travel expenses. Make sure travel expenses are correctly characterised (or apportioned) as business or personal expenses.

The general rule for businesses is that you can claim deductions for expenses if you or your employee are travelling for business purposes. Such expenses can include:

- airfares, bus, train and taxi/Uber fares;
- car-hire fees plus fuel, tolls and car parking costs; and
- accommodation and meals if you are away overnight.

You must keep proper tax records to claim travel expenses. The records need to be kept for 5 years and can include tax invoices, boarding passes, tickets. Records are also needed to detail how you worked out the private portion of any travel expenses. For example, if you travelled for business but extended the stay to go sightseeing and have a holiday. In this case, you will need to work out an appropriate apportionment of the expenses.

Depending on the length of travel, you may need to keep a travel diary as well. In fact, the ATO highly recommends a travel diary is kept for all travel expenses.

Some expenses that may be characterised as private and are not deductible could include:

- costs incurred to take your family on a business trip;
- sightseeing and entertainment; and
- visas, passports or travel insurance.

Keeping records

It is vital that proper tax records are kept by small businesses. Small businesses need to keep records in relation to establishing, running or selling the business.

Legally, records must:

- explain all transactions;
- be in writing (electronic or paper);
- be in English or in a form that can be easily converted; and
- be kept for five years (some records may need to be kept longer).

Tip! You'll find tax time much easier if all your records are in order and readily accessible. ■

What are the ATO's focus areas?

The ATO has identified the top 3 issues that they see as issues when small businesses lodge their tax returns:

1. Failing to report all of their income;
2. Not having the necessary records to prove small business expenses claims; and
3. Claiming private expenses as business expenses.

Tip! You should keep these focus areas in mind when preparing your tax return. ■



Key lodgment dates

The ATO has produced the following table outlining the lodgment dates for 30 June balancers. If you use a substituted accounting period, different dates will apply.

Lodgment and payment due dates for 30 June balancing companies and super funds

Due date for lodgment	Due date for payment	Description
31 October 2019	1 December 2019	Entities with one or more prior year returns outstanding as at 30 June 2019.
31 October 2019	1 December 2019	Entities prosecuted for non-lodgment of prior year tax returns and advised of a lodgment due date of 31 October 2019.
31 October 2019	1 December 2019	Entities that may be required to lodge early.
1 December 2019	As per notice of assessment	Companies that are not full self-assessment (NFSA) taxpayers. Note: Companies not subject to full self-assessment include agents for non-resident insurers and re-insurers, and overseas shipping companies.

15 January 2020	1 December 2019	Large/medium taxpayers whose 2018 tax return was taxable – unless required earlier.
28 February 2020	28 February 2020	<ul style="list-style-type: none"> Subsidiary member of a consolidated group that has exited the consolidated group in the financial year. Large/medium taxpayers whose 2018 tax return was non-taxable. This includes entities whose 2018 tax return was made not necessary by 30 June 2019. <p>Large/medium taxpayers established between 1 July 2017 and 30 June 2018 and the 2018 tax return is not necessary and you advised us that a tax return was not necessary.</p> <p>New registrant large/medium taxpayers.</p> <p>Head companies of consolidated groups that are new registrants.</p> <p>Note: If the new registrant is a head company of a consolidated group, it is important to refer to Consolidated groups. In some instances, the company may need to lodge using the arrangements for a large entity</p> <ul style="list-style-type: none"> New registrant SMSF – unless required earlier.
31 March 2020	31 March 2020	Entities with total income in the 2017–18 year of more than \$2 million unless required earlier.
15 May 2020	15 May 2020	<ul style="list-style-type: none"> Entities that may not have an obligation to lodge. Entities who are subsidiary members of a consolidated group that has been consolidated for a full year. These clients should not have an obligation to lodge. Non-profit organisations that assess that they have a requirement to lodge and have not been allocated an earlier lodgment due date. <p>Note: Entities must assess their obligation to lodge a tax return on an annual basis.</p> <ul style="list-style-type: none"> New registrants, excluding large/medium taxpayers, head companies of consolidated groups and SMSFs. <p>All remaining entities that are tax agent clients.</p>
5 June 2020	5 June 2020	<p>Tax return for companies and super funds who were non-taxable or received a credit assessment in the latest year lodged, and are actually non-taxable or receiving a credit assessment in the current year (unless due earlier) – all entities with a lodgment due date of 15 May 2020 except large/medium taxpayers or head companies of consolidated groups.</p> <p>Note: This is not a lodgment due date but a concessional arrangement where penalties will be waived if lodgment is made by this date.</p>





Key tax dates

Date	Obligation
23 Sep 2019	August monthly BAS due
30 Sep 2019	Single touch payroll deadline to start reporting
21 Oct 2019	September monthly BAS due
28 Oct 2019	<ul style="list-style-type: none"> - September quarter SG due - September quarterly BAS due - September quarter PAYG instalment due
31 Oct 2019	2019 Income tax return due
21 Nov 2019	October monthly BAS due
28 Nov 2019	September quarter SG charge statement due

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