

Devil in detail for SMEs

Randall Stout
dissects 5 SME
budget changes

Tax cuts

Companies with annual turnover under \$2 million will receive a tax cut of 1.5 percentage points, for a new rate of 28.5 per cent from July 1. For unincorporated small businesses such as sole traders or partnerships, there is a 5 per cent tax discount on income, capped at \$1000. Here is a company example:

- Business income: \$1.5 million
- Expenses: \$1.1 million
- Taxable profit: \$400,000
- Current 30 per cent company tax rate: \$120,000 in tax payable
- New 28.5 per cent rate: \$114,000 in tax payable
- Tax saving: \$6000 a year

Most small businesses draw their profits in the form of wages and/or dividend distributions. Some leave the undrawn profit in their companies. This is the only way to enjoy this tax saving. If you draw the \$400,000 profit to pay a home loan, for example, you will still have to pay the difference between the discounted company tax rate and your personal marginal tax. That is 33 per cent from \$37,000 to \$80,000, 37 per cent between \$80,001 to \$180,000 and 47 per cent over \$180,000, plus the Medicare levy. If you draw on your small business profit, you won't save tax.

\$20,000 tax write-off

Until June 30, 2017, you can im-



Sweet change: Michael Waldoock, who owns Sweetlips fish and chips in Scarborough, will benefit from tax changes. Picture: Michael Wilson

mediately deduct the cost of assets bought for business use provided the item cost less than \$20,000. It is the business that can claim the deduction. So, if you need a new photocopier, small vehicle or computer equipment you can claim the cost as an expense. Previously, items over \$1000 had to be depreciated over a longer period.

Advice set-up costs

When you need accounting, tax or legal advice costs to set up your business these costs can be im-

mediately claimed. Previously you wrote them off over five years.

Changing structures

Many businesses start out as sole traders. As a business grows, the accountant or adviser may suggest a change in tax structure to a company or trust. This triggers a capital gains assessment and also stamp duty on transfer to the new entity. In 2016-17, small businesses will be able to change structures without incurring CGT. We need more detail on this proposal and if

there is still WA stamp duty to pay this isn't truly tax free.

FBT exemption

Your business can now provide more than one qualifying work-related portable advice. So your employees can have a laptop, smart phone and/or tablet. You used to be able to supply one item per annum used primarily for work purpose. So, go resource your team.

Randall Stout is a director at HPH Solutions



**IF YOU NEED TO
DRAW ON YOUR
SMALL BUSINESS
PROFIT, THERE
WON'T BE ANY
TAX SAVING.**

SMSF breaches to cost more from July

DIY SUPER

Monica Rule



Each year I eagerly wait for the Federal Budget to see what changes will be made to superannuation law as well as what new laws may be introduced.

Between 2007 and 2013 years, the Rudd and Gillard governments made lots of changes to superannuation so I was both relieved and unsurprised that there were only minor changes announced in this Budget which directly impact self-managed superannuation funds.

You can only fiddle with things so much before people begin to lose confidence in super.

One minor change is in relation to accessing superannuation under terminal illness grounds.

Under the current law, a fund member must have two medical practitioners certify that they are likely to die within 12 months, to access their superannuation.

Effective from July 1, the 12 months will be extended to two years which allows terminally ill members earlier access to their superannuation.

The other small change that SMSFs trustees and members need to be aware of is that the penalty units for non-compliance will increase from \$170 to \$180, effective July 31.

This is another great reason to take an interest in the superannuation law and avoid making

mistakes. Non-compliance will cost you more.

The best news about the Budget is what it does not include.

There is no new superannuation tax.

As you may be aware, once an SMSF is in pension phase, investment earnings that are funding the pension are exempt from tax.

There was much talk about the Government bringing in a 15 per cent tax on investment earnings over \$75,000.

This is not happening. Not for the time being at least.

However, in my opinion, it is only a matter of time before it does happen as, unfortunately, tax-free retirement income is unsustainable in the long term for our economy.

With a declining tax base, the Government will have to look for other revenue sources and the big pool of superannuation funds is a tempting target.

Although the current Government is reluctant to do anything to upset self-funded retirees, the unpopular decision will need to be made eventually.

Even though there was much speculation and a certain amount of scaremongering that the Government would ban limited recourse borrowing arrangements, no change was announced in the Budget.

It seems that the sky has not fallen on self-managed superannuation borrowing just yet. But who knows what is in store.

Monica Rule is an SMSF specialist and author of The Self Managed Super Handbook www.monicarule.com.au



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