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**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.

**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.

# 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.

## Company tax rates

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

Income year	Aggregated turnover threshold	Tax rate for <b>base rate entities*</b> 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).

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 – e.g. 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 cap 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).

## 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.

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