



Business Tax News August 2007

Welcome to the August issue of Face Tax News. This issue focuses on:

- Accessing small business concessions
- More use of “simplified” GST accounting
- New GST registration thresholds
- Changes impacting on GST invoices
- Unpaid Superannuation Guarantee

There are a number of changes to Australia’s tax laws that took effect on 1 July 2007 - many of them will be of particular interest to small businesses.

We would be pleased to discuss the tax issues set out in this issue of Tax News. Please contact Michelle Pearce or Chris Rutter on (02) 9555 1309 to discuss how Face Chartered Accountants can assist you.

SMALL BUSINESS CONCESSIONS

Until recently, if you wanted to access a range of small business tax concessions, your first hurdle was trying to work out whether your business was in fact a “small business” for the purposes of a particular concession.

For those of you who have already tried to access these concessions, you know that the factors identifying an eligible small business differed from concession to concession.

The good news is that from 1 July 2007, the entry point for accessing small business tax concessions has been streamlined.

SIMPLIFIED ENTRY POINT

From 1 July 2007, most small businesses with an aggregated annual turnover of less than \$2 million will be able to access a range of small business tax concessions that meet their business needs.

There are a couple of things you need to keep in mind about the application of this new single entry threshold for small businesses:

- your aggregated turnover is your annual turnover plus the annual turnovers of any businesses you are connected with or have influence over. If you are not linked with any other businesses and your business turnover is less than \$2 million, you are now a *small business entity*.
- if you are an eligible small business entity, you may still have to satisfy additional conditions (not related to the size of your business) that currently apply to some of the concessions.

TIP

As there are three different ways you can calculate your aggregated annual turnover (*turnover from the previous income year, or the estimated or actual turnover for the current year*) it's important to get advice about the best method to use in your particular situation.

Set out below is a list of the small business tax concessions to which the new \$2 million entry threshold applies from 1 July 2007.

Income tax concessions

Simplified trading stock rules - you can choose not to conduct a stocktake to account for changes in the value of your trading stock if there is a difference of less than \$5,000 between:

- the value of your stock on hand at the start of the income year; and
- a reasonable estimate of the value of your stock on hand at the end of the income year.

If you are able to use the simplified trading stock rules, the value of your closing stock at the end of the tax year will be the same value as your opening stock for that year.

Simpler depreciation rules - you may be able to choose to pool your assets and claim one deduction for the whole asset pool.

Prepaid business expenses - you may be entitled to claim an immediate deduction for prepaid expenses (where the payment is for a period which is 12 months or less and ends in the next income year).

Entrepreneurs' tax offset - you may be able to reduce your tax payable by up to 25%.

SIMPLIFIED TAX SYSTEM (STS)

All the above concessions were available previously under the STS. However, the 2006-07 income year is the last year the STS operates in the way it was originally set up. From 1 July 2007, you can now choose the individual concessions contained in the STS if your turnover is less than \$2 million.

Capital gains tax concessions

Set out below is a list of the main small business CGT concessions. It's best to get advice about how these concessions may apply in your particular circumstances because their application can be tricky.

CGT 15-year asset exemption - you may be able to choose to be exempt from CGT when you sell a business asset you have owned continuously for 15 years (if at the time you are at least 55 years old and retiring, or you are permanently incapacitated).

CGT 50% active asset reduction - you may be able to choose to reduce your capital gain by 50% on the sale of an active asset (this reduction can apply in addition to the general 50% CGT discount for assets held for twelve months or more).

CGT retirement exemption - if you are 55 years or over, you may be able to choose to be exempt from CGT on the sale of a business asset up to a lifetime limit of \$500,000. If you are under 55, this payment must be rolled over into a complying superannuation fund or an eligible retirement savings account.

CGT roll-over provisions - you may be able to choose to roll-over all or part of a capital gain from the sale of a business asset if you acquire a replacement asset or make improvements to an existing asset.

TIP

If your business doesn't satisfy the \$2 million small business threshold test, but the net value of its CGT assets is less than \$6 million, it will still be able to access the CGT small business concessions, subject to satisfying any other eligibility criteria.

GST concessions

Accounting for GST on a cash basis - you may be able to choose to account for GST in the reporting period when you receive payment for a sale that you have made. Similarly, you also claim GST credits in the reporting period when you actually pay for your purchase.

Paying GST by instalments - you may be able to choose to pay your GST by instalments (an amount worked out by the ATO, which you can vary, each quarter if appropriate). If you do go down this route, you will also need to lodge an annual GST return reporting your total GST liability for the year.

Apportioning of GST input tax credits - you may be able to choose to account for the private portion of your business purchases annually for GST purposes rather than each time you lodge an activity statement. If you go down this route, you can initially claim the full GST input tax credit for a business purchase and make a GST adjustment for any private portion in any later activity statement up to the one that covers the due date for lodging your income tax return.

Quarterly PAYG payment concessions

PAYG instalments based on GDP adjusted notional tax – companies and superannuation funds, with business and investment income under \$2 million in their last lodged tax return, can choose to use the gross domestic product (GDP) amount option when paying quarterly PAYG instalments. The previous threshold for this benefit was \$1 million. This option is also available to all PAYG individual payers regardless of the amount of their business and investment income.

TIP

If you are eligible to opt for the GDP adjusted notional tax method for paying PAYG, it means you pay the quarterly PAYG instalments determined by the ATO (you can also vary these instalments). You don't have to work out your actual instalment income for PAYG purposes each quarter - your actual income tax will be worked out in your annual tax return.

FBT concessions

FBT car-parking exemption – From 1 April 2007, an eligible small business entity is exempt from fringe benefits tax on car parking provided to its employees on its premises.

If your business doesn't satisfy the \$2 million small business threshold test, but its ordinary income and statutory income is less than \$10 million, it will still be able to access this concession.

Other concessions

2 year period for amending assessments – if you are a small businesses with less than \$2 million turnover, the ATO may only have two years to review and amend your tax returns (instead of a four year period). This doesn't apply to some small businesses and will never apply in situations of tax avoidance, fraud or evasion.

A WORD TO THE WISE

Businesses with existing access to CGT, FBT or PAYG small business concessions do not lose out under the new \$2 million small business threshold. Those benefits will apply to businesses that meet the new small business definition **or** that meet other existing eligibility criteria.

“SIMPLIFIED” GST ACCOUNTING

Prior to 1 July 2007, the Commissioner could authorise simplified GST accounting methods to help a range of retailers dealing with food to work out their net GST liability or refund.

From 1 July 2007, access to these simplified GST accounting methods has been extended to eligible small businesses generally. Your business or enterprise may be able to take advantage of these new arrangements if it:

- has an annual turnover of less than \$2 million; and
- has mixed inputs (creditable acquisitions and those that are not) or makes mixed supplies (GST taxable and GST free)

How does it work?

In general terms, the GST simplified accounting approach is designed to enable you to calculate your net GST position:

- based on agreed ratios or representative samples of your transactions
- that apply to a class of business that includes your type of business.

Currently, for instance, there are five possible simplified GST accounting methods that are accepted by the ATO:

- **business norms** - you estimate your GST-free sales and purchases by applying standard percentages (determined by the ATO for particular types of businesses) to your total sales and purchases for every tax period.
- **stock purchases** - the percentage of your GST-free sales will be the same as the percentage of your GST-free purchases.
- **snapshot** - the snapshot method is similar to the stock purchases method except that you have to measure GST-free sales as well as GST-free purchases.
- **sales percentage** - you examine the total sales in each tax period and work out the GST-free percentage of your total sales. You then apply this percentage to your purchases (trading stock only) for the tax period to estimate your GST-free purchases.
- **purchases snapshot** - you calculate your GST credits by applying a percentage of GST-free trading stock purchases (worked out over a four-week sample period) to your total trading stock purchases.

A WORD TO THE WISE

There are a number of conditions that impact on your entitlement to use simplified GST accounting methods. It's best to get advice about whether this is a suitable option for you to pursue with the ATO.

CHANGES TO GST REGISTRATION

From 1 July 2007, you are no longer required to register for GST if your annual GST turnover is less than \$75,000 (previously less than \$50,000). The GST registration threshold for non-profit bodies has also increased to \$150,000 (previously \$100,000).

If your GST turnover is now below the new thresholds, you may want to consider deregistering. However, it's best to get advice if you decide to go down the deregistration route - you may have to make some adjustments in your final GST return.

Example: you will have to make an increasing adjustment to recapture any input tax credits that you have claimed for acquisitions you still hold at the time your registration is cancelled.

ARE YOU A TAXI OPERATOR?

The changes to the GST registration thresholds don't apply to taxi operators – you are still required to be registered regardless of your GST turnover.

GST INVOICES

From 1 July 2007, you do not require a tax invoice to claim a GST credit for purchases of \$75 or less excluding GST (\$82.50 including GST). Similarly, you're not required to issue a valid tax invoice where the sale you make is \$75 or less excluding GST (\$82.50 including GST).

TIP

From 1 July 2007, the threshold requiring you to withhold an amount from a supplier for not providing an ABN has also increased to \$75 excluding GST.

UNPAID SUPER GUARANTEE

You may not be aware, but from 1 July 2007, if you don't meet your superannuation guarantee obligations and your employee lodges a complaint, the ATO will be able to provide more information to your employee, including:

- keeping your employee updated on the progress of their complaint during an investigation; and
- what steps the ATO will take to recover the unpaid super guarantee charge.

YOUR PRIVACY IS PROTECTED

If one of your employees lodges a complaint, the reporting changes to the super guarantee secrecy laws do not allow the ATO to provide your employees with any information about your general financial affairs (including your tax) at any stage of the complaint process.

Recap on Super Guarantee obligations

As the ATO has stepped up its super guarantee audit activities, a recap on your obligations is in order.

Your key responsibility here as an employer is to provide the minimum level of compulsory superannuation support for each eligible employee.

This is currently set at 9% of an employee's eligible wages or salary.

If you have super obligations under an industrial award, these count towards the minimum level of super guarantee support, as do payments made under a salary sacrifice arrangement.

Who's covered by Super Guarantee?

Most employees, whether full-time, part-time or casual, are covered by the superannuation guarantee legislation.

You should be aware that the term 'employee' has a wider meaning for super guarantee purposes. It may include other types of workers such as company directors, some artists, sports people and certain contractors.

However, you don't have to make super guarantee contributions for some types of employees, including those:

- paid less than \$450 a calendar month;
- 70 years or older; or
- under 18 and work no more than 30 hrs per week.

TIP

The 'transition to retirement' initiative now allows people to access their superannuation benefits once they reach their preservation age without having to retire or leave their job. If you have employees in this situation, you still have to pay super contributions for them.

Tax deduction if paid on time

Don't forget that super guarantee contributions are usually tax deductible, provided they are paid on time on a quarterly basis to a complying superannuation fund or retirement savings account.

If you don't pay your super guarantee contributions on time, you'll need to lodge a Superannuation Guarantee statement and pay the superannuation guarantee charge (SGC), which is not tax deductible!

TIP

Provided you make the late super guarantee contribution no later than 1 month after the due date, you may have the option of requesting the ATO to offset this late payment directly against the SGC itself. If you do this, then the late payment is ignored and is not tax deductible.

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