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Welcome

Welcome to the Autumn edition of our Business Information newsletter.

The next few months will find us producing tax plans for the 2017 financial year and preparing our clients for the 2018 financial year. We will be contacting the relevant clients in relation to Tax Planning, Self Managed Superannuation documentation and Trustee Resolutions. We appreciate your prompt responses to these matters to ensure they are all addressed and completed by 30 June.

Topics addressed in this newsletter include debt issues for small business, what employers should know about FBT and why more businesses can access the \$20K instant asset write-off this year.

News at BHT Partners - Veronika Michalke retired from BHT Partners in May after 28 years service in various administration roles at BHT Partners. We wish Veronika the very best in her retirement.

Debt – issues for small business

ATO adding tax debt to your credit record

From 1 July 2017, the Australian Taxation Office (ATO) will inform credit rating agencies of businesses that have outstanding tax debts. Given 65.2% (\$12.5 billion worth) of these late payers are small businesses, the move will put significant pressure on business operators to prioritise tax debt above other creditors.

Announced in the Mid-Year Economic and Fiscal Outlook (MYEFO), the plan will see the ATO disclose the tax debt information of businesses that have "...not effectively engaged with the ATO to manage these debts" to credit agencies. This means that if your business has a tax debt and you have not taken steps to work with the ATO, they will ensure that you cannot access new finance or potentially maintain existing finance levels without first addressing the debt to the ATO. There are two problems with this approach. The first is that once your credit rating is downgraded, it's very difficult to repair. The second is the legitimacy of the ATO's tax debt claim – what if it is wrong?

The measure will initially only apply to businesses with Australian Business Numbers and tax debt of more than \$10,000 that is at least 90 days overdue. We have little doubt however that this measure will eventually extend to all tax debtors.

The important thing is that anyone with an outstanding tax debt engage with the ATO. This will prevent the credit agency threat being triggered. If you are in this scenario, we can help by engaging with the ATO on your behalf.

Why big businesses don't pay small business on time

At the other end of the spectrum is the Payment Times and Practices Inquiry by the Australian Small Business and Family Enterprise Ombudsman (ASBFEO). The inquiry's issue paper reveals that collectively, Australian small businesses are owed around \$26 billion in unpaid debts at any one time. In the last financial year, late payments have increased for six out of ten SMEs with one in four businesses experiencing an average payment delay of 31 to 60 days past agreed terms.

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What employers need to know - FBT 2017

We know that no one likes to pay tax and certainly no more tax than they should. But very few people want to be on the wrong side of an Australian Taxation Office (ATO) audit where fees and penalties are paid for neglecting your obligations.

The Fringe Benefits Tax (FBT) year ended on 31 March which means the ATO will be looking closely at whether or not every employer who should be paying FBT is, and whether they are paying the right amount.

Housekeeping

If your business has cars and you need to record odometer readings at the first and last days of the FBT year (31 March and 1 April), have your team take a photo on their phone and email it through to a central contact person – it will save running around to every car.

Should I be registered for FBT?

If you have employees (including Directors of a company) then it's possible your business needs to register for FBT. Generally, your business needs to register for FBT if

Debt plays a significant factor in a business's cashflow and survival. If larger businesses don't pay smaller suppliers within the terms of trade, the small business often has to resort to external funding to manage the cashflow requirements of the business.

The inquiry is looking at options to improve the payment times of large business. Some of these solutions are already in play in some States such as a requirement for large projects to use supply chain finance where project bank accounts hold funds in trust to ensure supply chain participants are paid. Other solutions are in the 'naming and shaming category' where large businesses would be obliged to report their current payment times or for smaller businesses to report late payments.

Why 90,000 more businesses can access the \$20k instant asset write-off this year

The popular \$20,000 instant asset write-off for small business enables small businesses to immediately write-off depreciable assets which cost less than \$20,000. This concession currently ends on 30 June 2017 but if the Budget proposal is passed by Parliament, the \$20,000 instant asset write-off may be extended to 30 June 2018.

Until recently, this instant write-off was only accessible to businesses with an aggregated turnover of less than \$2 million. But, a last minute deal struck between the government and Senator Nick Xenophon to pass the enterprise tax Bill - containing amongst other things the tax cuts for business and a change in the small business threshold - will see up to 90,000 more businesses access the instant write-off.

While the Bill containing these changes is not yet law, we expect that it will be passed when Parliament next sits.

For those businesses that have not accessed this concession previously, it's important to understand how you can take advantage of it before 30 June 2017.

What is the \$20,000 instant asset write-off?

A deduction is generally available for purchases your business makes. The instant asset write-off however changes the speed at which you can claim a deduction. Since 7.30pm, 12 May 2015, small businesses have been able to immediately deduct business assets costing less than \$20,000. On 30 June 2017, this \$20,000 deduction limit reduces back to \$1,000. When we say "immediately deductible" we mean that your business can claim a tax deduction for the asset in the same income year that the asset was purchased and used (or installed ready for use). The deduction is claimed on the business's tax return.

If your business is registered for GST, the cost of the asset needs to be less than \$20,000 exclusive of GST. If your business is not registered for GST, it is \$20,000 including GST.

Assets costing \$20,000 or more can be allocated to a pool and depreciated at a rate of 15% in the first year and 30% for each year thereafter.

The instant asset write-off only applies to certain depreciable assets. There are some assets, like horticultural plants, capital works (building construction costs etc.), assets leased to another party on a depreciating asset lease, etc., that don't qualify - check with us first if you are uncertain.

Also, you need to be sure that there is a relationship between the asset purchased by the business and how the business generates income. You can't for example just go and purchase multiple television sets if they have no relevance to your business.

How can you access the \$20,000 instant asset write-off

There are a few issues to be aware of if you want to utilise the instant asset write-off:

Does your business qualify?

To access the instant asset write-off, your business needs to be a trading business (the entity buying the assets needs to carry on a business in its own right). It also needs to have an aggregated turnover under \$10 million. Aggregated turnover is the annual turnover of the business plus the annual turnover of any "affiliates" or "connected entities". The aggregation rules are there to prevent businesses splitting their activities to access the concessions. Another entity is connected with you if:

You control or are controlled by that entity; or

you are providing benefits to employees that are not exempt from FBT. So, if you provide cars, car spaces, reimburse private (not business) expenses, provide entertainment (food and drink), employee discounts etc., then you are likely to be providing a fringe benefit.

There are exemptions to FBT, such as portable electronic devices like laptops and iPads (although there are rules around how many), protective clothing, tools of trade etc.. If your business only provides these exempt items, or items that are infrequent and valued under \$300, then you are unlikely to have to worry about FBT.

\$20k instant asset write-off, continued.

Second hand goods qualify

The instant asset write-off does not distinguish between new or second hand goods. For example, second hand machinery may qualify if it meets the other requirements.

The immediate deduction can be used more than once

Assuming all the other conditions are met, an immediate deduction should be available for each individual item costing less than \$20,000. Just be careful of cashflow.

Be careful of contracts

You need to ensure that any contract you sign makes your business the owner of the asset and that the asset can be used or installed and ready to use by the business on or before 30 June. The rules require you to "acquire" the asset before 30 June so the wording of the contract will be important.

Assets for business and pleasure

Where you use an asset for mixed business and personal use, the tax deduction can only be claimed on the business percentage. If you buy an \$18,000 second hand car and use it 80% for business and 20% for personal use, only \$14,400 of the \$18,000 is deductible.

You don't get \$20,000 back on tax as a refund

Both you and that entity are controlled by the same third entity.

Should you spend the money now?

If there are purchases and equipment that your business needs, that equipment has an immediate benefit to the business, and your cashflow supports the purchase, then in many cases it will make sense to go ahead and spend the money – you have until 30 June 2017 before the deduction threshold drops back to \$1,000.

The \$20,000 immediate deduction applies as many times as you like so you can use it for multiple individual purchases. But, your business still needs to fund the purchase for a period of time until you can claim the tax deduction and then, the deduction is only a portion of the purchase price.

Assets must be ready to use

If you want to access the \$20,000 immediate deduction, you have to start using the asset in the financial year you purchased it (or have it installed ready for use). This prevents business operators from stockpiling purchases and claiming tax deductions for goods they have no intention of using in the short term. So, if your business purchases an asset on 20 May 2017, it needs to be used or installed and ready to use by 30 June 2017 to qualify for the immediate deduction.

Continued on right...

The instant asset write off is a tax deduction that reduces the amount of tax your business has to pay. It enables your business to claim a deduction for depreciating assets in the year the asset was purchased and used (or installed ready to use). For example, if your business is in a company structure the most you will 'get back' is 27.5% (in 2016-17). If your business is likely to make a tax loss for the year then the bigger deduction might not provide any short-term benefit to you.

ATO Key Dates - May to July 2017

26 May	Quarterly activity statement, quarter 3, 2016/17 - due date for lodging and paying if you are lodging via BHT Partners.
29 May	Fringe benefits tax annual return - due date for lodging and paying where required.
21 June	May 2017 monthly activity statement - due for lodging and paying.
30 June	Superannuation guarantee contributions must be paid by this date to qualify for a tax deduction in the 2016/17 financial year.
21 July	June 2017 monthly activity statement - due for lodging and paying.
28 July	Quarterly instalment notice, quarter 4, 2016-17 - due date for lodging and/or paying. Lodgement is only required if the instalment amount is to be varied. Quarterly activity statement, quarter 4, 2016-17 - due date for lodging and paying if you are lodging via paper directly to the ATO. Superannuation guarantee contributions for quarter 4, 2016-17 - contributions to be made to the fund by this date.

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