What your clients need to know

Although spending cuts have attracted most of the publicity, there are some important tax measures in the Budget which, together with changes already in the pipeline mean that a pre-30 June chat with your clients might be a good idea.

‘Every client’s situation is different and the Institute of Chartered Accountants Australia’s list is not a recommendation to take any particular type of tax planning. Our list is more of a conversation-starter with clients,’ said Michael Croker, Head of Tax Policy at the Institute.

PERSONAL TAXATION

1 The Budget Repair Levy
• Quantify the impact of the levy on after-tax income for the three years ahead
• Review salary packaging arrangements to determine the impact of the higher FBT rate which also reflects the levy
• Consider the different outcomes which may result from legitimate tax planning ideas, such as bringing forward the timing of income, maximizing deductions, salary sacrifice and income splitting arrangements.

COMPANY TAXATION

3 A lower company tax rate (for some) from 1 July 2015
• A 28.5% tax rate for companies is expected to apply from 1 July 2015
• At a company level, consider the impact of the tax cut on after-tax profits and franking capability. Changes in the tax rate usually raise for consideration a number of straightforward business tax planning ideas
• At a shareholder level, consider the impact on future franked dividends and the associated tax offset for resident shareholders.

4 The Paid Parental Leave levy on large companies with taxable incomes exceeding $5 million
• The benefit of the 28.5% company tax rate will be countered for large companies by the imposition of the Paid Parental Leave levy of 1.5% on that part of their taxable income exceeding $5 million
• At a company level, the design and implementation of the levy will be the focus of tax implementation teams who will also need to communicate the impact of the levy to shareholders. HR teams also need to consider the impact on existing company maternity leave arrangements
• At a shareholder level, consider the impact on future franked dividends and the associated tax offset for resident shareholders.

For more information on the Federal Budget visit charteredaccountants.com.au/federalbudget
What your clients need to know (continued)

LOSS CARRY BACKS
5 The loss carry back was implemented by the previous Labor government, with effect from the 2012-13 income year. It provides a refundable tax offset for the current year that is a proxy for the tax the entity would save if it deducted the loss in the income year to which the loss is carried back. The offset is capped at the lesser of $300,000 or the entity’s franking account balance.

The Coalition government wants to repeal this measure from the start of the 2013-14 income year, but the necessary legislation is contained in the MRRT Repeal Bill, blocked in the Senate.

SMALL BUSINESS MEASURES
6 The Coalition has introduced legislation to lower the small business instant asset write-off from $6,500 to $1,000, and withdraw special rules for vehicle depreciation (which allow a deduction for the first $5,000 of the cost). Both measures are meant to apply from 1 January 2014 but the government has been unable to pass the legislation through the Senate.

ANNOUNCED BUT UNENACTED TAX AND SUPERANNUATION MEASURES
On 14 December 2013, the government announced its decision on which of the ‘announced but unenacted tax measures’ it would proceed with. These were the measures identified by organisations such as the Institute as the most important from a taxpayer certainty viewpoint. The Federal Budget includes some further reconsideration by the government on unenacted measures to do with tax consolidation and managed investment trusts.

7 To proceed tax measures
Some of the ‘to proceed’ measures have recently been the subject of consultation with the Institute and we expect these will be introduced into Parliament shortly. This means tax advisers will be able to give clients a better understanding of the proposed law, as distinct from relying on a press release.

The ‘to proceed’ measures include:
• Debt equity rules – limiting the scope of the integrity provision in s. 974-80
• Loss recoupment rules – multiple classes of shares
• Look-through treatment of earn-out arrangements for CGT purposes
• Changes to tax hedging rules (Taxation of Financial Arrangement provisions)
• Cross-border GST ‘connected with Australia’ rules
• Superannuation changes (fund mergers, unlawful payments from funds).

8 Protection for taxpayers who relied on announcements, but the tax measure will not proceed
To protect those taxpayers who relied on the announcement of tax changes, only to find that the government will no longer proceed with the measure, the Institute has been consulted on the design of a ‘safe harbour’ measure designed to ensure that such taxpayers are not disadvantaged. We expect to see this protective legislative measure introduced to Parliament soon.

SUPERANNUATION GUARANTEE
9 In response to uncertainty surrounding the rate at which Superannuation Guarantee would apply from 1 July 2014, the government has confirmed that the 9.5% rate (as currently legislated) will apply and remain in place until 1 July 2018. This is essentially a ‘re-phasing’ of the eventual increase in the rate to 12%. Accountants can help employer clients in managing their super guarantee obligations and help design workplace communications explaining the impact on employer-employee remuneration arrangements.

SUPERANNUATION EXCESS CONTRIBUTIONS TAX
10 Excess non-concessional contributions to superannuation funds are currently taxed at penalty rates, up to as much as 93%. In a win for common sense, the government has announced that individuals who make excess contributions after 1 July 2013 can simply withdraw the excess component (and associated earnings). No excess tax will apply, and the related earnings will be taxed at the individual’s marginal rate. Individuals affected by this measure will be keen to take advantage of this new approach. The government has indicated they will consult with industry on the finer details of this measure.