

# Practice Update

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MAY 2017

## Company tax cuts pass the Senate with amendments

*Editor: After a marathon few days of extended sittings (the last before the Federal Budget in May), the Government finally managed to get its company tax cuts through the Senate, but it was not without compromise.*

*The following outlines the final changes to the law, as passed by the Senate, including a recap of which of the original proposals remained intact and also which ones were changed.*

### Increase to the SBE turnover threshold

As was previously announced, the Small Business Entity ('SBE') definition has changed with respect to the turnover eligibility requirement.

The aggregated turnover threshold has increased from \$2 million to **\$10 million** with effect from 1 July 2016 (i.e., the *current*, 2017, income year).

Note that, whilst the increase in this threshold will expand access to most SBE concessions (e.g., simplified depreciation), this change will **not** apply with respect to:

- the Small Business Income Tax Offset (a special **\$5 million threshold** will apply when determining eligibility for this tax offset); and
- the Small Business CGT concessions (the aggregated turnover threshold to access these concessions will **remain at \$2 million**, although taxpayers may still seek to satisfy the \$6 million maximum net assets test as an alternative method of obtaining access to these concessions).

## Reduction in the corporate tax rate

The most significant difference between the Government's original proposals and what was finally passed by Parliament was in relation to the reduction in the corporate tax rate.

Although the corporate tax rate will still decrease to 25% (by the 2027 income year, as originally proposed), access to the reduced corporate tax rate will be restricted to corporate entities that **carry on business** with an aggregated turnover of **less than \$50 million** (from the 2019 income year).

The following table provides a summary of how the progressive reduction in the corporate tax rate will apply.

| Income Year  | Aggregated turnover | Company tax rate |
|--------------|---------------------|------------------|
| 2016         | < \$2 million       | 28.5%            |
| 2017         | < \$10 million      | 27.5%            |
| 2018         | < \$25 million      |                  |
| 2019         | < \$50 million      |                  |
| 2020         |                     |                  |
| 2021         |                     |                  |
| 2022         |                     |                  |
| 2023         |                     |                  |
| 2024         |                     |                  |
| 2025         |                     | 27%              |
| 2026         |                     | 26%              |
| 2027 & later |                     | 25%              |

*Editor: As noted above, corporate entities with at least \$50 million aggregated turnover or, more importantly, companies that do not carry on business (e.g., passive investment companies and 'bucket companies') will continue to have a corporate tax rate of 30%.*

### Changes to the franking of dividends

Prior to this income year, companies that paid tax on their taxable income at 28.5% could still pass on franking credits to their shareholders at a rate of 30%, subject to there being available franking credits.

However, with effect from 1 July 2016 (i.e., this income year), the maximum franking credit that can be allocated to a frankable distribution paid by a company will be based on the tax rate that is applicable to the company.

*Editor: Please contact this office if you would like to know how these changes will affect your business specifically.*

### Costs of travelling in relation to the preparation of tax returns

The ATO has released a Taxation Determination confirming that the costs of travelling to have a tax return prepared by a "recognised tax adviser" are deductible.

In particular, a taxpayer can claim a deduction for the cost of managing their tax affairs.

However, apportionment may be required to the extent that the travel relates to another non-incidentally purpose.

#### Example – Full travel expenses deductible

Maisie and John, who are partners in a sheep station business located near Broken Hill, travel to Adelaide for the sole purpose of meeting with their tax agent to finalise the preparation of their partnership tax return.

They stay overnight at a hotel, meet with their tax agent the next day and fly back to Broken Hill that night.

The full cost of the trip, including taxi fares, meals and accommodation, is deductible.

#### Example – Apportionment required

Julian is a sole trader who carries on an art gallery business in Oatlands.

He travels to Hobart for two days to attend a friend's birthday party and to meet his tax agent to prepare his tax return, staying one night at a hotel.

Because the travel was undertaken equally for the preparation of his tax return and a private purpose, Julian must reasonably apportion these costs.

In the circumstances, it is reasonable that half of the total costs of travelling to Hobart, accommodation, meals, and any other incidental costs are deductible.

*Editor: Although the ATO's Determination directly considers the treatment of travel costs associated with the preparation of an income tax return, the analysis should also apply where a taxpayer is travelling to see their tax agent in relation to the preparation of a BAS, or another tax related matter.*

### FBT: Benchmark interest rate

The benchmark interest rate for the 2017/18 FBT year is 5.25% p.a. (5.65% applied in 2016/17).

This rate is used to calculate the taxable value of:

- ◆ a loan fringe benefit; and
- ◆ a car fringe benefit where an employer chooses to value the benefit using the operating cost method.

#### Example

On 1 April 2017 an employer lends an employee \$50,000 for five years at an interest rate of 5% p.a., with interest being charged and paid 6 monthly, and no principal repaid until the end of the loan.

The actual interest payable by the employee for the current year is \$2,500 (\$50,000 × 5%). The notional interest, with a 5.25% benchmark rate, is \$2,625.

Therefore, the taxable value of the loan fringe benefit is \$125 (i.e., \$2,625 – \$2,500).

### FBT: Cents per kilometre basis

The rates to be applied where the cents per kilometre basis is used for the 2017/18 FBT year in respect of the private use of a vehicle (other than a car) are:

| Engine capacity | Rate per kilometre |
|-----------------|--------------------|
| 0 – 2,500cc     | 53 cents           |
| Over 2,500cc    | 63 cents           |
| Motorcycles     | 16 cents           |

*Editor: The ATO also determined that the small business record keeping exemption threshold for the 2017/18 FBT year is \$8,393.*

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.