



The

# BUSINESS

A C C E L E R A T O R

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## Don't Leave Profit on the Table

The vast majority of businesses owners in this country work hard, very hard. However, despite their best efforts, a lot of businesses never reach their full profit potential.

There's no doubt, to create a successful business you need to do research and planning plus you need to take risks. There are very few shortcuts to success and no amount of enthusiasm, passion, talent or hard work can guarantee business success.

While there are a multitude of reasons why a business can fail, there are even more reasons why a business under-performs. The wrong product, incorrect pricing, a poor location and a lack of marketing can all drag down your bottom line profit. Bad timing and simply not minding your own business by maintaining quality financial records can also impact on your profit. Of course, some of these issues a business owner can control while others are out of your control including economic conditions, new technology or natural disasters.

Profit is how we keep the score in business and it is also a consequence of decisions made by management. The mission is to maximise your profit and when you sell your business, the valuation might also be a multiple of your profit so it's important to continually grow your profits.

Fundamentally there are only four ways to grow your business and your profit:

1. Increase the Number of (Ideal) Customers
2. Get the Customers to Buy More Often
3. Increase the Average Sale Value
4. Improve Your Systems & Processes

It doesn't matter if you run a plumbing, painting or physiotherapy business, the first step in growing your business is to identify these 3 key numbers:

- a) Your number of customers
- b) How many times each year those customers transact with you
- c) The average customer sale value or transaction amount

To illustrate the point, let's assume you run a hairdressing salon and your metrics are as follow:

Number of Customers	Average Transaction Value	Ave. Transactions per Annum	Equals Turnover
250	\$125	6	\$187,500

It's basic mathematics to arrive at the turnover figure of \$187,500. They say you can only manage what you measure so it's important that you know these three numbers in your business. If the business has rent of \$50,000 plus wages of \$45,000 and other costs of say \$15,000 (including rates, insurance, repairs and consumable products) then the business profit would be \$77,500. Assuming your business was valued at 2 times your profit (before interest and tax) it would be worth \$155,000.

Now, using a software tool called the Business Accelerator Program, let's look at the profit improvement potential in the business by increasing some of these key performance indicators.

The simplest example is increase your average sale price by 10% so it goes from

\$125 to \$137.50. That might be as simple as putting your prices up or alternatively you start 'up-selling' so each customer buys some hair product on leaving the salon. Multiplying the numbers through, your turnover goes from \$187,500 to \$206,250. The \$18,750 increase in revenue goes almost entirely to your bottom line profit.

Let's now look at what happens if we can get an increase in more than one of your key performance indicators. If you could increase your number of customers by 10%, increase your prices by 10% and get your customers to come in for a haircut 7 times a year (instead of 6) what impact would that have on your business turnover and profit? As you'll see below, the business turnover rises by an incredible 41% to \$264,688. The compounding effect is massive!

Number of Customers	Average Transaction Value	Ave. Transactions per Annum	Equals Turnover
275	\$137.50	7	\$264,688

### The Four Ways To Grow Your Business

	Before	Change	After
<b>1 Average Transaction Value</b>			
Price	125.00	10.00%	137.50
Gross Profit	70.67%	3.77%	73.33%
Gross profit per transaction	88.3333333	14.15%	100.8333333
<b>2 Transaction Frequency</b>			
Number of Customers (start)	250		
Defections		0.00%	-
Acquisitions		10.00%	25.00
Number of Customers (end)		10.00%	275.00
Total Transaction Volume	1,500	28.33%	1,925
<b>4 Productivity</b>			
Expenses	110,000		141,167
Productivity Change		28.33%	
Expense per transaction	73.33	0.00%	73.33
<b>Income Statement</b>			
Total Revenue	187,500		264,688
Gross Profit	132,500		194,104
Expenses	55,000	28.33%	70,583
Net Profit	77,500	59.38%	123,521

### Your Profit Improvement Potential

\$46,021

69.38% Increase

Current Net Profit
Potential Net Profit





## Don't Leave Profit on the Table

With the extra number of haircuts, you might have to employ a part time hairdresser, so we will allow an extra \$15,000 for wages and hair product you might consume delivering these services.

Punching these changes into the Business Accelerator Program you'll find the business profit increases by \$46,021 (59.38%) from \$77,500 to \$123,521.

Not only that, because of the profit improvement, the value of the business has increased by \$138,063 from \$232,500 to \$370,563.

A 10% increase in price combined with a 10% increase in the number of customers plus getting customers to come and buy one extra time per year is probably achievable for any hairdresser.

Let's now consider your business. Can you identify the 3 key performance indicators in your business? If not, we can certainly help you calculate your numbers and do some financial modelling to identify the profit improvement potential in your business. In doing so, you can set some financial targets for the next financial year and think about how you are going to attract more customers, get existing customers to spend more with you and buy from you more often. As accountants, we don't want you leaving any potential profit on the table.

Of course, the financial calculations are easy when you know your key profit drivers. It's easy to say you are going to attract 10% more customers next year but how do you do it?

Well, to support each of the 4 ways to grow a business we have developed a number



of strategies. For example, here is a single strategy for how to attract more customers, get them to buy more often and increase the average sale value.

### 1 - Get More Customers

Use Target Marketing. You don't necessarily want to market to everyone so you need to focus your attention on winning your ideal type of customer. This could mean targeting a certain gender, age group, income level or people in a geographic location. The next question is, where do they 'hang out'?

It could be online and Facebook lets you target groups with ads based on certain types of qualifying criteria (like age and location) so you can really hone in on your ideal type of customer with tailored advertisements.

### 2 - Get Your Customers to Buy More Often

Customer retention is important because these people have bought from you before, hopefully had a positive experience and simply need to be nurtured so they come back and buy again. It's just poor business practice to ignore an existing source of revenue that's right under your nose and the nurturing process is designed to make customers feel valued. Your communications are designed to help stay in touch (with newsletters and special offers) and keep your business top of mind. Trades people rarely communicate with their clients beyond the first 'sale'. Leaving a business card or fridge magnet behind at a job won't keep you top of mind for long. You need to think about developing



more 'touch points' with your customers like newsletters, special offers, service reminders, thank you notes and emails promoting new products or services.

### 3 - Increase the Average Sale Value

Batching or bundling several products together in a package deal is a way to make your products and services appear more attractive and create extra value for your customers. Essentially you are offering a bundle of products that cost less if they are purchased in a batch rather than if they were purchased individually. For example, a beauty therapist might package up a facial with a massage and a moisturising cream. A clothing retailer might package up two shirts and a tie with every suit sold. The products should be complimentary and we suggest you sit down and examine your product range to identify any opportunities to bundle items together to make the package deal even more irresistible to your customers.

If you want to put your business under the microscope and explore ways to improve the profitability of your business, talk to us today. If you book a Business Accelerator session we will run your numbers through the Business Accelerator Program to quantify the profit improvement potential in your business plus provide a detailed report that includes 30 marketing strategies to help you achieve your goals.





# THINKING OF STARTING A BUSINESS?

It's exciting when you have that light bulb moment, that flash of brilliance and idea for your new business. It's hard not to get carried away with the excitement of a new venture, particularly if you're following your passion.

Of course, turning your idea into a business necessitates research and planning plus there are inherent risks that create financial pressure and plenty of stress. No amount of enthusiasm, money, hard work or talent can guarantee you success in business and there are very few shortcuts when starting a business.

Over the years we have mentored hundreds of clients through the start-up phase of their business and along the way we have earned a reputation as business start-up specialists. To help our clients we have also developed a number of practical tools, templates and checklists to help you fast track your start-up. In recent months we have consolidated all this information into what we call The New Business Starter Kit. It's a fantastic booklet that has 7 chapters to guide you through:

- 1 Choosing the Right Business & Tax Structure – Company, Trust, Partnership or Sole Trader
- 2 The Right Accounting or Bookkeeping Software – Avoid the Computerised Shoebox!
- 3 Business Registrations – Business Name, GST, TFN, ABN, PAYG, Website Domain & Others
- 4 Appropriate and Adequate Insurances for Your New Business
- 5 Legal Issues - Contracts, Commercial Leases, Wills etc.
- 6 Preparing a Business Plan and Cash Flow Budget
- 7 Marketing - Branding, Videos, Lead Generations Websites, Social Media, Backlinks, Google Reviews and more!



To succeed in business, it's important to make the right opening moves and this 33-page book is the ideal starting point. It's a great resource for a new entrepreneur and you don't have to reinvent the wheel or go searching for the essential start-up tools like a checklist of expenses, a business plan template or a cash flow budget template. They are all on our website in the resources section for your immediate download together with a template for a profit and loss statement.

Starting a business can be a maze and haze of issues for a new entrepreneur. It is a process and with our New Business Starter Kit it's all under one roof. There's even an 82-point checklist you can work through when starting your business that will make sure you leave no stone unturned.

Of course, as business start-up specialists we can also help you prepare revenue forecasts and expense estimates as well as a profit & loss forecast for your first year of trading. We can even do some financial modelling and project your financial results based on different price points.

We genuinely believe your marketing could be the difference between doom, gloom and boom so we have put extra time and effort into the marketing chapter. You'll find guidelines and tips on creating the right brand, a lead generation website, social media channels, backlinks, search engine optimisation, Google Reviews and more! In fact, this chapter is an essential read for any business owner – new or existing.



# Looking for more Traffic to your Website?

A lot of small business websites are like billboards in the desert. They are attractive and flashy but with no passing traffic they don't generate new customers or sales.

The business and marketing landscape has changed and the 2018 Telstra Small Business Intelligence Report suggests that 47% of customers under the age of 40 use a search engine to find or research a small business at least once a day. As such, the first touch point with a prospective new customer, client or patient is probably going to be your website. Even people referred to you will check out your website before they call.

An amateurish website makes a bad first impression and could be costing you sales. If your website is an 'electronic brochure' that simply lists the who, what and where of the business then it's time for an upgrade, makeover or replacement. Traditional marketing methods like print, radio and television have lost their marketing mojo and are being replaced by online marketing tactics including Google searches, content marketing, email marketing and social media. Your website is your primary marketing engine so let's look at how to drive more traffic to your website.

## SEARCH ENGINE OPTIMISATION (SEO)

SEO is the process of improving your website's page rankings on Google and the other search engines. Google search results are determined by an algorithm or computerised set of formulas and they constantly change. Search engine optimisation describes a series of techniques you can use to improve the relevance and ranking of your website pages. The end goal is to get your website to appear on the first page of the search results for your primary keywords or phrases because statistically, most people don't look beyond those results. SEO relies heavily on your content and keywords.

### 1 - Content Marketing

I'm sure you're familiar with the expression, content is king. From an SEO point of view, your content is critical because Google wants to give its users the most accurate and relevant search results. Your content is the primary material that Google uses to produce their results. The good news is, Google provides a level playing field so if your content is original, fresh and relevant to the search phrase, you can outrank your larger competitors.

Of course, your fresh, new content can position you as an expert in your field and also integrate with other marketing channels like your social media



to increase exposure and engagement with your target markets. The ultimate outcome is to create more leads, increase conversions and generate more customers. If you are creating your own content it will only cost your time and don't forget, your content is more than just a web page and includes video, blogs, newsletters, e-books, checklists and templates.

### 2 - Social Media

Facebook is a very powerful marketing tool that provides two distinct marketing options - organic content and paid ads.

Organic content is the content you post on your business' Facebook page and there is no cost associated with this option. You simply need a Facebook account and the objective is to post relevant content that engages with your target market and build a relationship with your community of followers. Organic social media posts serve to position you as an expert in your field, a thought leader in your industry plus provide a touch point with your customers or clients to keep you in their thoughts.

Social media is an effective way to distribute your valuable content and can spread organically across your entire network and beyond if people share your content with their

network. It's a compounding effect but if your organic content isn't delivering the results you want you can look to paid advertising methods to boost the results.

Facebook advertising is a whole new world that lets you create a marketing campaign that targets your ideal type of customer or client. Facebook provides a variety of ad types that are designed to attract more traffic to your website, win more sales or get more social engagement. Facebook advertising also lets you re-target your previous customers to increase retention and improve your sales.

PPC advertising or Search Engine Marketing (SEM) is another paid form of social media advertising. Also known as Google AdWords, this strategy lets you target your ideal type of customer and offers different types of ads. With PPC, you only pay for the number of clicks your advertisement receives and where businesses compete for the same or similar ad words, Google operates on an auction-style pricing model. It can be very effective because you are reaching people who are actively looking for your products or services, but we have also seen plenty of business owners burn lots of money with Google AdWords.



# FEDERAL BUDGET 2018/19

The Treasurer, Scott Morrison handed down his third Federal Budget on Tuesday May 8 and there were no major surprises. In terms of the economy, the Budget deficit is forecast to drop to \$14.5 billion in 2018/19 after hitting \$18.2 billion in 2017/18. It is projected to hit a positive balance of \$2.2 billion in 2019/20 before surpluses increase to \$11 billion in 2020/21 and \$16.2 billion in 2021/22.

Unemployment is forecast to be 5.25% down from 5.5% in 2017/18 and projected to fall again to 5% in 2021/22. Inflation at 2.25% in 2018/19, up from 2% in 2017/18. It is projected to hit 2.5% next year and remain there for the following two years.

## Key objectives of the Budget were:

- To generate opportunities for businesses and workers
- Continued economic and employment growth
- Reductions in tax payable for low to middle income earners
- A fairer tax system by cracking down on the cash economy
- A balanced budget in two years and then moving to surplus budgets to repay national debt
- A more competitive economy with enhanced export potential
- More aged care facilities and pensioner benefits



## Individuals

### Stage 1. The Government's Three Stage Personal Income Tax Plan

The Government is introducing a 7-year Personal Income Tax Plan that will be rolled out in three stages. The first stage of the Tax Plan will provide Australian resident low and middle-income earners with a non-refundable tax offset of up to \$530 per annum. The offset will be received as a lump sum on assessment after an individual lodges their tax return. The offset will be available from 2018/19 through to 2021/22.

- For Low and Middle-Income Earners with taxable incomes of \$37,000 or less, the tax offset will provide an annual benefit of up to \$200.
- For Low and Middle-Income Earners with taxable incomes between \$37,001 and \$48,000, the value of the tax offset will increase at a rate of 3 cents per dollar to the maximum annual benefit of \$530.
- Taxpayers with Taxable Incomes from \$48,001 to \$90,000 will be eligible for the maximum annual benefit of \$530.
- For taxpayers with taxable incomes from \$90,001 to \$125,333, the offset will be phased out at a rate of 1.5 cents per dollar earned in excess of \$90,000.

Importantly, the Government has proposed the Low and Middle-Income Tax Offset is in addition to the current Low-Income Tax Offset.

### Stage 2: Preventing Bracket Creep

The Government has proposed the following tax rates for individuals:

Marginal Tax Rate	Current 2017/2018 Income	Proposed 2018/19
0%	\$0 - \$18,200	\$0 - \$18,200
19%	\$18,001 - \$37,000	\$18,001 - \$37,000
32.5%	\$37,001 - \$87,000	\$37,001 - <b>\$90,000</b>
37%	\$87,001 - \$180,000	<b>\$90,001</b> - \$180,000
45%	\$180,001+	\$180,001+

As the table illustrates, from 1 July 2018, the top taxable income threshold of the 32.5% personal income tax bracket will be increased from \$87,000 to \$90,000.

From 1 July 2022, the top taxable income threshold for the 32.5% personal income tax bracket will be increased from \$90,000 to \$120,000. The top taxable income threshold for the 19% personal income tax bracket will be increased from \$37,000 to \$41,000

From 1 July 2022, the Low-Income Tax Offset will be increased from \$445 to \$645.

### Stage 3: Removal of the 37% Tax Bracket Entirely

From 1 July 2024 the Government will

simplify and flatten the personal tax system by removing the 37% tax bracket altogether by increasing the top taxable income threshold of the 32.5% personal income tax bracket from \$120,000 to \$200,000. This is in recognition of inflation and wage growth. The new 32.5% tax bracket will incorporate taxable incomes from \$41,001 to \$200,000.

Taxpayers with taxable incomes exceeding \$200,000 will pay the top marginal tax rate of 45%. That is, the top marginal tax rate will be payable on taxable incomes from \$200,000 instead of the current \$180,000.





# The **BUSINESS** ACCELERATOR MAGAZINE

## Individuals

### 2. The Medicare Levy

The Government will retain the Medicare levy rate at 2% of taxable income for eligible taxpayers and not increase it to 2.5% as previously proposed to assist in funding the NDIS. Changes to other tax rates that are linked to the top personal tax rate, such as the fringe benefits tax rate, will also not proceed.

The Government will increase the Medicare levy low-income thresholds for singles, families, seniors and pensioners from the 2017/18 income year as follows:

- The threshold for singles will be increased from \$21,655 to \$21,980.
- The family threshold will be increased from \$36,541 to \$37,089.

- The Single seniors and pensioners threshold will increase from \$34,244 to \$34,758.
- The family threshold for seniors and pensioners will increase from \$47,670 to \$48,385.
- The family income thresholds increase by a further \$3,406 for each dependent child or student (increased from \$3,356).

### 3. Taxation of High Profile Individuals

From 1 July 2019, the Government will ensure that high profile individuals will no longer be able to take advantage of lower tax rates by licencing their fame or image to another entity. Under the current tax environment, high profile individuals such



as sports people and actors can licence their fame or image to another entity such as a related company or trust. All income derived under this licence is assessable income to the entity that holds the licence.

This has allowed these individuals to spread their income to decrease the rate of tax paid. The new proposal will ensure that all remuneration, including payments and non-cash benefits provided for the commercial exploitation of a person's fame or image, will be included in the assessable income of that individual.

## Business

### 1. Extending The \$20,000 Instant Asset Write-Off by Another 12 Months

The government will extend the current \$20,000 instant asset write-off available for small business entities (i.e. businesses with an aggregated turnover of less than \$10 million). Small business entities will now be able to immediately deduct the cost of most new or second hand depreciating assets bought and used (or installed ready for use) in the business before 30 June 2019 – provided the asset costs less than \$20,000. Only a few assets are not eligible (such as horticultural plants and in-house software).

Whether GST should be included in working out whether the threshold is met depends on whether the purchaser is registered for GST or not:

1. If the purchaser is registered for GST – the GST exclusive amount is the cost of the asset; and
2. If the purchaser is not registered for

GST – the GST inclusive amount is the cost of the asset.

However, assets costing \$20,000 or more can be pooled in a general small business pool, treated as a single depreciating asset and depreciated at:

- 15% for such assets acquired in the first income tax year; or
- 30% each income year thereafter.

If the balance in the pool is less than \$20,000, the pool can be immediately deducted.

After 30 June 2019 (i.e. from 1 July 2019) the immediate deductibility threshold will revert to \$1,000 (as opposed to the current \$20,000).

### 2. Introduction of Economy-Wide Cash Payment Limit

From 1 July 2019, the Government will introduce a limit of \$10,000 for cash payments made to businesses for goods and services. Currently, undocumented cash payments are used to evade tax and



to launder money derived from criminal activity. To ensure a transparent audit trail is retained for large payments, the Government has proposed from 1 July 2019 a \$10,000 limit for cash payments made to businesses. Payments in excess of the \$10,000 limit will only be permissible by electronic transfer (e.g. direct debit, BPAY, PayPal) or by cheque.

The restriction will not apply to transactions involving financial institutions e.g. banks, nor will it apply to consumer-to-consumer non-business transactions.

*The greatest compliment we receive from our clients is the referral of their friends, family and business colleagues. Thank you for your support and trust.*



## Business

### 3. Further Expansion of Taxable Payments Reporting

Currently, under the Taxable Payments Reporting System (TPRS), businesses in the building and construction industry are required to report payments to contractors to the ATO. These measures were introduced to target the 'black' or cash economy and are designed to reduce the incidence of tax evasion by contractors. The 2017 Budget extended the TPRS to the cleaning and courier industries with effect from 1 July 2018. From 1 July 2019 the Government has proposed to expand the TPRS to include businesses in the following industries:

- Security providers and investigation services;
- Road freight transport; and
- Computer system design and related services.

Businesses will be able to report the payments to the ATO via an online portal.

### 4. Removing Tax Deductibility of Payments Where Withholding Obligations Not Met

From 1 July 2019, businesses will no longer be able to claim a deduction for the following payments:

- Payments to their employees such as wages where they have not withheld any amount of PAYG from these payments (i.e. despite the fact the PAYG withholding requirements apply).
- Payments made by businesses to contractors where the contractor does not provide an ABN and the business does not withhold any amount of PAYG (despite the withholding requirements applying).



## Companies

### Phoenix Activity

Phoenix activity is where companies are deliberately gutted of assets and income to pay their debts to the ATO and other creditors including employees. This activity has come at a great cost to the Australian community with the flow on effect of the Government not receiving the tax revenue to fund services and businesses collapsing because they have not been paid by the phoenix companies.



Finally, the Government will implement measures to make the directors of these companies personally liable. The corporations law and the tax law will be amended to make the deliberate avoidance of paying debts illegal. The new measures will target:

- People who conduct or facilitate illegal phoenix activities.
- Directors deliberately backdating resignations to avoid liability or prosecution.
- Restrict the ability of related creditors to vote on a company to be liquidated.
- Directors to pay the avoided debts including income tax, GST and luxury car tax.
- Tax refunds which will not to be paid by the ATO.



### Division 7A Changes

Division 7A is an extremely complicated provision in the tax law whereby loans usually made by private companies to their shareholders are taxed as unfranked

dividends unless the loan is reflected in a complying loan agreement by a certain time. What makes this provision even more complicated is the interaction of the unpaid present entitlements (UPE) rules (i.e. where a trust declares a distribution to a related company but does not pay the distribution) with these deemed dividend provisions.

In last year's Budget, the Government proposed some new rules to Division 7A (e.g. a self-correction mechanism if Division 7A was inadvertently triggered, new safe harbour rules and a new option of a single compliant loan of 10 years) that were due to apply from 1 July 2018. In this budget the Government extended the start date of these measures to 1 July 2019.

From 1 July 2019, the Government will ensure that unpaid present entitlements ('UPEs') come within the scope of Division 7A of the Tax Act. This will apply where a related private company is made entitled to a share of trust income as a beneficiary but has not been paid. This measure will ensure the UPE is either required to be repaid to the private company over time as a complying loan under Section 109N of the Tax Act or is subject to tax as a dividend.

### Changes to the Research & Development Incentive

The government intends to make the following important changes to the research and development (R&D) tax incentive:

1. Increase the maximum amount of R&D expenditure eligible for the 43.5% refundable offset (for companies with turnover of less than \$20 million) or 38.5% non-refundable offset (for companies with turnover of \$20 million or more) from \$100 million to \$150 million;
2. For companies with an aggregated annual turnover of \$20 million or more, the Government will introduce a marginal R&D premium that ties the rates of the 38.5% non-refundable offset to the amount of R&D expenditure incurred by a company (e.g. can qualify for a higher R&D incentive if the company does more R&D activities);

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## Companies

### Changes to the Research & Development Incentive

3. For companies with aggregated turnover below \$20 million, the refundable R&D tax offset will be a premium of 13.5 percentage points above a company's tax rate.
4. Cap cash refunds from the refundable offset to \$4 million per year (Note: R&D tax offsets in excess of the \$4 million will be carried forward and become non-refundable tax offsets in future years);
5. Publicly disclose claimant details and the R&D expenditure they have claimed.

Currently only R&D expenditure up to \$100 million qualifies for either the 43.5% or 38.5% offset – expenditure in excess of \$100 million will only qualify for a tax offset equal to the company tax rate (i.e. 30% or 27.5%). Under the proposal, an extra \$50 million of expenditure (i.e. the difference between \$150 million and \$100 million) will qualify for higher offsets.

The introduction of the marginal R&D premium will benefit businesses with an aggregated turnover of \$20 million or more with substantial R&D activities because such businesses will qualify for the higher offsets. This will be based on the incremental intensity of R&D expenditure as a proportion of total expenditure for the year.

Businesses that qualify for refundable offsets of more than \$4 million per year will lose the cash refund mechanism on the excess amounts because such excess refunds will become non-refundable in future years. Note, however, that refundable offsets from R&D expenditure on clinical trials will not count towards the cap.



## Trusts

### Children's Income from Testamentary Trusts

From 1 July 2019, the Government intends to change the law so that the adult tax rates and the tax-free threshold available to children in receipt of certain income from testamentary trusts (a trust arising from the will of a deceased person) will be limited. Limiting access to the adult tax rates for minors will mean that only income derived from assets or funds arising from the deceased person's estate will be taxed concessionally.

This means that if other persons later add funds to the testamentary trust, the income from these new funds will be taxed at the normal tax rates for minors in receipt of passive income, e.g. where the income exceeds \$416, tax is payable on the whole of the child's income at 45% plus Medicare Levy. The measure will clarify the position on the taxation of income received by minors from testamentary trusts.

### Stopping Circular Family Trust Distributions

From 1 July 2019, the Government will extend a specific anti-avoidance rule to family trusts that applies to other closely held trusts that engage in circular trust distributions.

Currently, where family trusts act as beneficiaries of each other in a 'round robin' arrangement, a distribution can be ultimately returned to the original trustee — in a way that avoids any tax being paid

on that amount. This measure will better enable the ATO to pursue family trusts that engage in these arrangements by extending the specific anti-avoidance rule, imposing tax on such distributions at a rate equal to the top personal tax rate plus the Medicare levy.

## Partnerships

### Increased difficulty for partners to access small business CGT concessions

From 8 May 2018, partners who alienate their partnership income by creating, assigning or otherwise deal in rights to the future income of the partnership will no longer be able to qualify for small business CGT concessions in relation to these rights.

Partners of partnerships will no longer be able to inappropriately access these small business CGT concessions when they assign their right to the future income of the partnership to an entity that does not have any role in the partnership.

## Superannuation

### Three-Yearly Audit Cycle for Some SMSFs

From 1 July 2019, the Government will change the annual audit requirement to a three-yearly requirement for SMSFs with a history of good record-keeping and compliance. This measure will reduce red tape for SMSF trustees that have a history of three consecutive years of clear audit reports and that have lodged the fund's annual returns in a timely manner.

### Increasing the Maximum Number of Members in a SMSF and Small APRA fund

From 1 July 2019, the Government will increase the maximum number of allowable members in new and existing SMSFs and small APRA funds from four to six. This is a welcomed change for larger families where five or six family members wish to join the same SMSF or small APRA fund; such families will no longer be compelled to establish a new superannuation fund.

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## Superannuation

### Work Test Exemption for Voluntary Contributions

From 1 July 2019, the Government intends to introduce a new exemption from the work test for persons aged 65 to 74 years of age with superannuation balances below \$300,000 in the first year following their inability to meet that test. This will enable them to make voluntary superannuation contributions in respect of that year. Currently, superannuation fund members aged between 65 to 74 years of age must work for a minimum of 40 hours in a 30-day period in order to be eligible to make voluntary superannuation contributions.

### Preventing Inadvertent Concessional Cap Breaches by Certain Employees

Following the reduction in the concessional superannuation contributions cap to \$25,000 from 1 July 2017, many employees with incomes in excess of \$263,157 may breach the concessional superannuation contribution cap of \$25,000 per annum. From 1 July 2018, the Government will allow individuals whose income exceeds \$263,157, and who have multiple employers, to nominate that their wages from certain employers are not subject to the superannuation guarantee (SG). The measure will allow eligible individuals to avoid unintentionally breaching the \$25,000 annual concessional contributions cap as a result of multiple compulsory SG contributions. Employees who use this measure could negotiate to receive additional income, which is taxed at marginal tax rates.

### Deductions for Personal Contributions

The Government intends to improve the integrity of the 'notice of intent' (NOI) processes for claiming personal superannuation contribution tax deductions. Currently, some individuals receive deductions on their personal superannuation contributions but do not submit a NOI, despite being required to do so. This results in their superannuation funds not applying the appropriate 15% tax to their contribution. As the contribution has been deducted from the individual's income, no tax is paid on it at all.

The additional funding will enable the ATO



to develop a new compliance model, and to undertake additional compliance and debt collection activities. From 1 July 2018, the ATO will modify income tax returns to alert individuals to the NOI requirements with a tick box to confirm they have complied.

### Capping Passive Fees, Banning Exit Fees and Reuniting Small and Inactive Accounts

From 1 July 2019, the Government will introduce a 3% annual cap on passive fees charged by superannuation funds on accounts with balances below \$6,000 and will ban exit fees on all superannuation accounts. The Government will also strengthen the ATO-led consolidation regime by requiring the transfer of all inactive superannuation accounts where the balances are below \$6,000 to the ATO's 'lost super' facility.

The ATO will expand its data matching processes to proactively reunite these inactive superannuation accounts with the member's active account, where possible. Furthermore, the government's ban on all exit fees will enable member to easily switch superannuation funds and will encourage superannuation funds to be more competitive in their offerings to their members.

### Insurance in Superannuation No Longer Automatic

Currently, superannuation funds belonging to people under 25 and those with low superannuation balances are often eroded by insurance premiums. Many superannuation funds automatically opt-in all of their members to insurances such as life insurance so the Government intends to introduce legislation from 1 July 2019 so that superannuation funds will not be able to automatically deduct insurance premiums from a member's account of these member accounts:

- members under 25 years of age; or
- members with low superannuation fund balances - less than \$6,000; or

- members who have had no superannuation contributions made within 13 months.

## Other Tax Changes

### Deny Deductions for Vacant Land

From 1 July 2019 The Government will deny deductions for expenses (e.g. interest costs and rates) associated with holding vacant land (for either commercial or residential purposes) where such land is not genuinely held for the purpose of earning assessable income.

Furthermore, the Government also intends to reduce the tax incentives that are currently available for land banking (i.e. where land may not be used for housing or other development).

However, there will be no denial of such a deduction of expenses incurred after:

- A building has been constructed on the vacant land, the building has received approval to be occupied and is available for rent; or
- The vacant land is being used by the owner to carry on a business (e.g. a business of primary production).

Tax deductions that have been denied in respect of vacant land will not be able to be carried forward for use in later years. Depending on the nature of the expense, the expense may not be included in the cost base of the vacant land when calculating any capital gain upon the land's disposal. However, expenses such as borrowing expenses and council rates may be included in the cost base of the vacant land.





# 2018 Tax Return Client Checklist June 2018



## 2018 - Individual Tax Returns

### Income

- Gross salary, wages, allowances, benefits, earnings, tips, Directors Fees and Insurance for lost wages.
- Income from business activities.
- PAYG Payment Summaries.
- Details of any non-cash benefits received including discount(s) on employee shares or rights.
- Lump sum and termination payments. All documentation should be provided including an ETP Payment Summary from the employer or fund.
- Government Social Security payments, including pensions, unemployment and sickness benefits.
- Details of any CGT asset sales (e.g. shares, business and real estate). Please include dates of, and costs associated with, acquisition and disposal (You can save tax if you qualify for the variety of CGT concessions).
- Annuities, including allocated pensions or superannuation income streams.
- Income from trusts and partnerships. Statements of distribution should be provided where appropriate.
- Rental income.
- Interest and dividends received from any source including life insurance or friendly society bonuses and any tax deducted. Include details of franked dividends (i.e. imputation credits).
- Foreign source (employment and pension) income and details of any foreign tax credits.

### Deductions

- Investment and property expenses (carefully detail interest and repair claims).
- Work-related subscriptions or memberships (not including sporting or social clubs).
- Employment related expenditure such as self-education, protective clothing, tools, uniform and laundry expenses.
- Motor vehicle expenses & car finance lease statements (include petrol, repairs, parking and maintain a Motor Vehicle Log Book where necessary).
- Donations of \$2 and over.
- Income Protection Insurance Premiums.
- For Self-Employed persons, details of any Superannuation Contributions made.
- Home office expenses where employment requires use of your computer, phone or other device.
- Tax Agent Fees and other accounting/tax audit fees.
- Special deductions (Australian films, investment shelters and agribusiness-type schemes).
- Unrecouped prior year losses.

### New Clients

- Last year's Notice of Assessment and Tax Return (if available)

### Rebates

- Private health insurance annual statement.
- Details of superannuation contributions where no tax deduction can be claimed.
- Any changes in dependants, children's details, DOB and any Centrelink benefits applicable (income of spouse should also be provided).
- Details of any income received in a lump sum which was accrued in earlier income years (e.g. assessable pensions).
- Details of any remote work performed for 183 days or more.
- Note:** The net family medical expenses tax offset is being phased out and for 2017/18 is restricted to net eligible expenses for disability aids, attendant care or aged care and will cease 30 June 2019.
- HECS-HELP Debt details.

### 8 Most Common Errors in Income Tax Returns

1. Omitting Interest Income
2. Incorrect or Omitted Dividend Imputation Credits
3. Capital Gains/Losses are Incorrect or Omitted
4. Understating Income
5. Home Office Expenses
6. Depreciation on Rental Property Fixtures and Fittings
7. Depreciation on Income Producing Buildings
8. Borrowing Costs associated with Negative Gearing

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# 2018 - Companies, Partnerships, Trusts and Other Businesses

## Income

- Trading Income.
- Other Income (e.g. Rent, Interest, Royalties).
- Stock on Hand at June 30, 2018 (and basis of valuation) – note any obsolete stock.
- Work-in-Progress at June 30, 2018
- Primary Producer subsidies (if assessable).
- Details of CGT assets (e.g. shares and real estate) sold, including dates of, and costs associated with acquisition and disposal.
- Dividends, including details of franking credits.
- Income from foreign sources including details of any foreign taxes paid.

## Deductions

- Repairs and maintenance.
- Salaries, including fringe benefits.
- Fringe benefits tax paid.
- Rates, land taxes and insurance premiums.
- Advertising expenses.
- Interest on borrowed monies.
- Deductions relating to foreign-source income.
- Prepaid expenses (subject to transitional rules).
- Retirement payments and golden handshakes.
- Bad debts actually written off during the year.
- Donations of \$2 and over depending on the recipient.
- Commissions.
- Legal expenses.
- Lease or Chattel Mortgage payments on motor vehicles and equipment.

- Losses of previous years (or intra-group transfers).
- Superannuation contributions.
- Subscriptions.
- Car expenses (remember to include petrol, repairs and parking and maintain a log book where necessary).
- Tax agent's fees and other accounting and tax audit fees.
- Royalties paid.
- Details of the destination and purpose of any interstate or overseas trip. Expenses must be fully documented where travel involves at least one night away from home. Travel diaries should be included where travel exceeds five nights.
- Research and development expenditure.
- Bank fees (where the credit or deposit represents assessable income).

## Liabilities

- New loans taken out during the year and their purpose, including any new lease or chattel mortgage agreements on vehicles, equipment or machinery.
- Statements from the lending authority detailing the opening and closing balances of existing loans during the financial year.
- Provisions for long service and annual leave.
- Creditors at June 30, 2018.
- Details of loan accounts to directors, shareholders, beneficiaries and partners.
- Accrued expenses (e.g. audit fees, interest payments).
- Commercial debts forgiven.

## Assets

- Details of depreciable assets acquired and/or disposed of during this income year, including:
  - type of asset;
  - date of acquisition;
  - consideration received/paid.
  - Lease commitments.
  - Debtors at June 30, 2018.
  - Commercial debts forgiven.

## Additional Information Required

- Franking account details/movements.
- Overseas transactions, exchange gains/losses.
- Private companies – remuneration or loans to directors, shareholders and their relatives.
- Changes to the capital of the company.
- Whether family trust elections have been made in relation to trusts.

### Note:

To ensure that you obtain the maximum deductions to which you are entitled and in consideration of the penalty provisions, FULL DETAILS of any claim should be provided and supporting documentation made available. For employee taxpayers and for travel and motor vehicle claims by self-employed taxpayers, documentation must be a receipt, tax invoice or similar document which contains certain details. For other taxpayers, documentation may comprise receipts, dockets, diary notations or reasonable and supporting estimates.

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