+ 2017 Federal Budget Tax Issues

Rental property travel expenses no longer tax deductible

From 1 July 2017 rental property owners will be unable to claim a tax deduction for travel expenses related to their rental property. Unfortunately this includes all travel costs eg. to inspect the property, collect rent, perform repairs, collect replacement items or meet with a property manager/tenant.

Medicare levy to increase from 1 July 2019

The Medicare levy (currently 2%) will increase by 0.5% to 2.5% from 1 July 2019 in order to fund the National Disability Insurance Scheme (NDIS).

$20,000 instant asset write off extended for small businesses

Businesses with a turnover of less than $10 million may continue to immediately deduct purchases of eligible depreciating assets costing less than $20,000 that are acquired up to 30 June 2018 and first used or installed ready for use by that date.

Assets valued at $20,000 or more (which cannot be immediately deducted) may be placed in a general small business depreciation pool and depreciated at 15% in the first year and at 30% in subsequent years. If the balance of the pool is less than $20,000 it may be fully written off in that year.

After 30 June 2018 the instant asset write-off threshold and the threshold for immediate deductibility of the balance of the pool revert to $1,000.

Superannuation incentives for older down-sizers

From 1 July 2018, people aged 65 or over will be eligible to make non-concessional contribution of up to $300,000 from the proceeds of selling their home. The home must have been held as their principal residence for at least 10 years and is available for each owner (if owned jointly or as tenants in common).
These home downsizing super contributions will not be subject to the age test, work test, contribution caps or $1.6m transfer balance cap.

Investment property depreciation deduction restrictions

From 9th May 2017 plant and equipment (eg. fixtures such as dishwashers and ceiling fans) depreciation deductions for residential real estate properties will be restricted to expenditure actually incurred by investors.

After 9 May 2017 acquisitions of existing plant and equipment items (ie. paid for by a previous owner) will be reflected in your cost base for capital gains tax (CGT) purposes. You will only be able to depreciate plant and equipment of a residential investment property if you actually incur its cost. A subsequent owner will be unable to depreciate items they acquire as part of the property. Instead they can only depreciate the cost of additional items they acquire for the property.

These changes will apply on a prospective basis, with existing investments held at 9 May 2017 grandfathered (ie. the old rules apply).

First home super saver scheme introduced

From 1 July 2017, first home buyers will be able to make voluntary contributions to superannuation which can then be withdrawn with associated deemed earnings to put towards a first home deposit.

These contributions and associated earnings will be taxed at the individuals marginal rates less a 30% offset (non-refundable) and will accelerate the savings of potential first home buyers. Both members of a couple may use the measure.

From 1 July 2017 the measures allow each person up to $15,000 per year and $30,000 in total to be contributed. Withdrawals will be allowed from 1 July 2018 onwards.

+ 2017 Tax Planning

General concepts of tax planning involve:

- Delaying the derivation of income – you might not deposit income if on a cash basis, or delay invoicing customers until 1 July if on an accruals basis, of recognising the derivation of income;
- Bringing forward deductible expenses or losses – consider buying items a little earlier than needed or consider realising a capital loss so that it may be applied to current year gains;
- Prepayment of next year's expenses – small business and individuals may prepay services which will be provided within the next 12 months;
- Use up lower marginal tax rates – consider investments in joint names or in a lower income earner's name if the tax rate is lower;
- Maximising deductions – keep track of tax related expenses by reviewing credit card statements and collating invoices consistently during the year so a once a year review obtains all your deductions;
- Paying super before year end. Super must be physically paid to and received by the fund in order to be tax deductible;
- Maximising rebates and tax concessions – note concessional superannuation contribution limits (up to $30,000 if less than 55, up to $35,000 if aged between 55 and 75 – subject to being an eligible person able to contribute to super and the work test if aged 65 or over), the spouse super contribution rebate which may be available for a contribution made to a low income earning spouse who is less than 75 and net medical rebates for medical aids and nursing home fees (provided it was claimed the previous tax year).

Naturally there are trade-offs between saving some tax and locking money away (eg. deductible super contributions) and stretching cash flow (eg. prepaying expenses). Importantly a tax deduction has a value reflective of your marginal tax rate, so a deduction of $1 for a taxpayer on with a marginal tax rate of 34.5% saves them only 34.5c of tax otherwise payable.

Accordingly you are wasting money if you buy unnecessary items.

Please contact our office with any accounting or taxation questions.