



ACHIEVE
FINANCIAL GROUP

Accountants and Business Advisors

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Practice Update

Please read this update and contact this office if you have any queries

July 2018

Personal Income Tax Cuts passed!

Parliament has passed the Government's Personal Income Tax plan, meaning that the first stage of the proposed income tax cuts will start to take effect from 1 July 2018.

According to the Prime Minister, taxes "will now be lower, fairer and simpler".

The Government's plan has three steps:

1. The Government will introduce the Low and Middle Income Tax Offset (**in addition** to the Low Income Tax Offset) from **1 July 2018**, being a non-refundable tax offset of up to \$530 per annum to Australian resident low and middle income taxpayers (apparently over 10 million taxpayers will get at least some tax relief from this new offset in 2019 income year).

The offset will be available for the 2019, 2020, 2021 and 2022 income years and will be received as a lump sum on assessment after an individual lodges their tax return.

2. Lifting tax brackets, to protect Australians from the impact of 'bracket creep', as follows:
 - From **1 July 2018**, the top threshold of the 32.5% personal income tax bracket will increase from \$87,000 to \$90,000.
 - From 1 July 2022, the 19% personal income tax bracket will increase from \$37,000 to \$41,000, and the top threshold of the 32.5% personal income tax bracket will further increase from \$90,000 to \$120,000.

The low income tax offset will also be lifted to \$645.

3. The 37% tax bracket will be removed entirely from 1 July 2024, and the top threshold of the 32.5% personal income tax bracket will be increased from \$120,000 to \$200,000.

Early release of super on compassionate grounds: ATO

From 1 July 2018, responsibility for the administration of the early release of superannuation benefits on compassionate grounds will be transferred from the Department of Human Services (DHS) to the ATO.

Since the ATO is responsible for most of an individual's interactions with the superannuation system, this change will enable the ATO to build on these existing relationships and provide a more streamlined service to superannuation fund members.

A key improvement under the new process is the ATO providing electronic copies of approval letters to superannuation funds at the same time as to the applicant, which will mitigate fraud risk and negate the need for superannuation funds to independently verify the letter with the Regulator.

Individuals will also upload accompanying documentation simultaneously with their application, rather than the current 'two-step process'.

Since DHS will accept early release applications up until 30 June 2018, there will be a short transition period where DHS will continue to

process those existing applications and complete any necessary reviews.

Nonetheless, from 1 July 2018 the ATO will process all new applications.

ATO putting clothing claims through the wringer

A focus on work-related clothing and laundry expenses this Tax Time will see the ATO *"more closely examine taxpayers whose clothing claims don't suit them"*.

According to Assistant Commissioner Kath Anderson, around **6 million people** claimed work-related clothing and laundry expenses last year, with total claims adding up to nearly \$1.8 billion.

She went on to say:

"While many of these claims will be legitimate, we don't think that half of all taxpayers would have been required to wear uniforms, protective clothing, or occupation-specific clothing."

With clothing claims up nearly 20% over the last five years, the ATO believes a lot of taxpayers are either making mistakes or deliberately over-claiming.

Common mistakes include people claiming ineligible clothing, claiming for something without having spent the money, and not being able to explain the basis for how the claim was calculated.

"Around a quarter of all clothing and laundry claims were exactly \$150, which is the threshold that requires taxpayers to keep detailed records. We are concerned that some taxpayers think they are entitled to claim \$150 as a 'standard deduction' or a 'safe amount', even if they don't meet the clothing and laundry requirements," Ms Anderson said.

"Just to be clear, the \$150 limit is there to reduce the record-keeping burden, but it is not an automatic entitlement for everyone. While you don't need written evidence for claims under \$150, you must have spent the money, it must have been for uniform, protective or occupation-specific clothing that you were required to wear to earn your income, and you must be able to show us how you calculated your claim."

Ms Anderson said the ATO also has conventional clothing in its sights this year.

"Many taxpayers do wear uniforms, occupation-specific or protective clothing and have legitimate claims. However, far too many are claiming for normal clothing, such as a suit or black pants. Some people think they can claim normal clothes because their boss told them to wear a certain colour, or items from the latest fashion clothing line. Others think they can claim normal clothes because they bought them just to wear to work."

"Unfortunately they are all wrong – you can't claim a deduction for normal clothing, even if your employer requires you to wear it, or you only wear it to work".

Tax time tips for small business

The ATO claims that it is committed to supporting small businesses and making it as easy as possible for them to understand and meet their tax obligations at tax time.

Consequently, Assistant Commissioner Mathew Umina has some tips to help small business in the lead up to and during tax time, including:

- ◆ keeping up-to-date records, which will help small businesses to complete and lodge their tax returns, manage cash flow, meet their tax obligations and understand how their business is doing;
- ◆ consider small business tax concessions, such as:
 - simplified trading stock rules (if the estimate of the difference between opening and closing trading stock is \$5,000 or less, the small business doesn't need to do a stocktake);
 - concessions that allow new small businesses to claim an immediate deduction for start-up costs like professional, legal and accounting advice;
 - simplified depreciation rules, including the \$20,000 instant asset write-off for assets costing less than \$20,000 bought and installed by 30 June 2018.

Please contact our office if you need any advice as to how any of the abovementioned small business tax concessions may be relevant to your business.

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.